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THE OBAMA ADMINISTRATION'S RENTAL ASSISTANCE DEMONSTRATION PROPOSAL

HEARING

BEFORE THE

SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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THE OBAMA ADMINISTRATION'S RENTAL ASSISTANCE DEMONSTRATION PROPOSAL

Thursday, November 3, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INSURANCE, HOUSING
AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:57 p.m., in room 2128, Rayburn House Office Building, Hon. Judy Biggert [chairwoman of the subcommittee] presiding.

Members present: Representatives Biggert, Hurt; Gutierrez, Cleaver, and Clay.

Also present: Representative Ellison.

Chairwoman BIGGERT. The Subcommittee on Insurance, Housing and Community Opportunity will come to order.

We will start with opening statements, and I will recognize myself for such time as I may consume.

Good afternoon. I want to welcome everyone. I am sorry about those pesky votes again. That seems to happen around 2 p.m. all the time. So I apologize, and I thank you for your patience.

This is the third hearing in a series on reforms to the Section 8 Program. During today's hearing, the subcommittee will examine the Obama Administration's Rental Assistance Demonstration proposal, or what is called "RAD."

I am supportive of this creative proposal because it would allow for mixed financing and leveraging of private capital with existing Federal funds. This is a concept that I actually have worked on for many years, and was realized through recent reforms to the Section 811 Program, which provides affordable housing for people with disabilities, and reforms to the Section 202 program, which provides affordable housing for seniors.

Given very scarce Federal resources, it is important that we maximize the impact of every taxpayer dollar, especially funds that go toward affordable housing. And given the demand for affordable rental housing, projected rehabilitation costs to preserve aging housing stock, and capital needs for housing development, new initiatives for private sector participation must be considered. So I thank many of the Members whose staffs have already offered input into the Section 8 reform package.

And, with that, I recognize the ranking member from Illinois, Mr. Gutierrez, who is busy talking.

Mr. GUTIERREZ. Thank you, Madam Chairwoman.

And thank you to all of our witnesses for joining us today to discuss HUD's proposal for a Rental Assistance Demonstration.

Let me start by saying that I understand how hard it can be for our Nation's public housing agencies to meet the demand for safe, affordable housing that they can see in our communities right now. This Congress has watched unemployment and homelessness approach historic highs. And how has it responded? Unfortunately, by cutting the programs that serve our most vulnerable constituents. Appropriators are threatening to shut down housing counseling agencies, strip funding from housing programs for the elderly, and cut the Public Housing Capital Fund by hundreds of millions of dollars.

So I understand the logic behind the RAD proposal. It is a potential solution to the capital infrastructure challenges that our public housing agencies are constantly facing. These agencies know they cannot depend on Congress to appropriate the funding they need, so they have worked with HUD and have come to us with an alternative that they hope will work. In short, HUD and public housing groups are willing to try a conversion, on a limited scale, of traditional public housing units to the project-based Section 8 Program, making it more likely that they will be able to leverage financing from private sources to meet their capital needs.

But a conversion like this doesn't come without risks. That is why I want to highlight certain provisions in the RAD proposal that reinforce tenant protections, promote resident choice, ensure long-term affordability for converted units, and prioritize continued public ownership of housing units after conversion.

I would ask that our witnesses address these provisions in detail today. I want to make sure that they truly will provide adequate protections and insurance so that our public housing dollars continue to reach the lowest-income families in a fair and equitable way. That is the only way a demonstration like this will work for everyone.

Thank you again, Madam Chairwoman. I look forward to the testimony of the witnesses and I welcome this opportunity to learn more about the RAD proposal. I yield back the balance of my time.

Chairwoman BIGGERT. Thank you.

Mr. GUTIERREZ. I ask unanimous consent that our colleague Mr. Ellison from Minnesota can join us for 5 minutes.

Chairwoman BIGGERT. Do you have an opening statement?

Mr. ELLISON. Yes, ma'am.

Chairwoman BIGGERT. You are recognized for 5 minutes.

Mr. ELLISON. Thank you, ma'am.

Chairwoman Biggert and Ranking Member Gutierrez, thank you for holding this hearing today. Revitalizing public housing is an important topic for this committee to address, especially when the poverty rate continues to rise and families struggle with unrelenting unemployment.

In 2010, 46 million Americans lived in poverty. That is over 15 percent of our population. And the availability of affordable housing for many of these families is scarce. This is exactly the wrong time to turn away from affordable housing programs that support low-income families. Instead, it is time for creative solutions to revitalize the affordable housing we already have invested in.

As I am sure today's witnesses are going to mention, the existing public housing buildings across the country have a combined capital need of about $26 billion. That is a lot of money. These capital needs come from years of underfunding of public housing programs. These capital needs mean that many buildings and individual apartments are in need of serious repair. Even worse, over the last decade, public housing authorities have already lost over 100,000 public housing units because buildings fell into disrepair. Considering this level of capital needs, creative solutions are necessary to protect public housing and ensure that these buildings remain affordable.

Now, at the high-water mark when Congress stepped up to the plate and really did something for public housing during the ARRA funding, we gave about $4 billion. So public housing residents cannot realistically expect Congress to appropriate adequate money to fund public housing. It simply isn't realistic to believe that. So something else needs to be done.

I would like to applaud Secretary Donovan, Assistant Secretary Henriquez, and the Administration on their commitment to this issue. The Rental Assistance Demonstration language is a thoughtful and innovative approach for revitalizing public housing and other affordable housing programs overseen by HUD.

Let me say very quickly, if I have any more time left, last Congress I introduced the Rental Housing Revitalization Act. There were a lot of people who were fearful about what this might mean, but we worked with the community and we listened and we incorporated ideas. This bill shared the same goal of helping public housing to access capital and financing in order to make needed repairs and renovations, given the gap I already identified.

I welcome the support of the Administration's work on advancing and refining these ideas. And I would like, again, to thank Chairwoman Biggert and Ranking Member Gutierrez for holding this hearing today. I look forward to working with members of this committee on strategies to preserve public housing. And I look forward to hearing from today's witnesses about their thoughts on the Rental Assistance Demonstration language.

And if I have any more time left, I just want to quickly say that a few years ago, I was lucky to have then-Chairman Barney Frank come to Minneapolis, and he spoke very eloquently about public housing affordability. One gentleman came forward who needed the assistance of a Spanish language interpreter to tell his story. And what he told us is that he and his five children and his spouse were looking for a place to rent but they couldn't find anywhere. But somebody came to him and told him that he could buy a house for no money down and that it would be really great and really easy on him and his family. He bought that house, but what they didn't tell him was that in 2 years, his mortgage was going to explode. He ended up not being able to make those payments and losing that house.

What if we had had good, decent, productive public housing that was in good repair available for that family? It could have saved a financial tragedy. And so, I hope we can step forward and do the right thing.

Chairwoman BIGGERT. I thank the gentleman.

We will now proceed to introduction of the witnesses. We are very fortunate today to have with us the Honorable Sandra Henriquez, Assistant Secretary, Public and Indian Housing, U.S. Department of Housing and Urban Development; Mr. Ismael Guerrero, executive director, Housing Authority of the City and County of Denver, Colorado; Mr. Steve Hydinger, managing director, BREC Development, LLC; and Mr. Charles Elsesser, attorney for the Community Justice Project of Florida Legal Services.

Without objection, all your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony.

We will start with Ms. Henriquez.

STATEMENT OF THE HONORABLE SANDRA B. HENRIQUEZ, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. HENRIQUEZ. Thank you very much. Good afternoon, Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee. I want to thank you for holding this hearing today and for giving me this opportunity.

We meet at an important moment. Today, the need for affordable housing is greater than ever, with 7 million households paying more than half of their income for housing, living in substandard housing, or both. Essential to meeting the needs of very low-income families, the elderly, and the disabled is public and assisted housing, which provides 2.5 million quality, affordable homes in communities across this Nation.

Over the last 75 years, the taxpayers invested significantly in these homes, but with a capital backlog estimated between $22 billion and $26 billion in the public housing portfolio loan, we have reached a breaking point. And where most forms of affordable housing could leverage funding from private investors and other nongovernment sources to make needed repairs, antiquated laws mean public housing and properties funded through HUD's so-called legacy programs generally cannot. As a result, we have already lost 150,000 publicly owned homes to demolition and disposition over the past 15 years. And we see no sign that this trend will abate anytime soon, particularly in this fiscal environment.

Further, some 48,000 units in our Rent Supplement, Rental Assistance Program. and our Section 8 Mod Rehab Programs are also at risk due to contract limitations that inhibit their ability to leverage capital.

Madam Chairwoman, my own decades of corporate and public-sector experience managing housing tell me that we can do better, we must do better, and that we can build a system that harnesses the resources and the discipline of the private market without compromising the important mission of publicly supported housing—a system that does not leave America's poorest families isolated.

The Rental Assistance Demonstration we have proposed represents an important step in building that better system. As this subcommittee knows, last year we proposed a multiyear initiative called, "Transforming Rental Assistance," which sparked an important conversation about how the public and the private sectors can work together to invest in the success of these properties and the

families who live in them. And the concepts and the feedback that emerged from that conversation culminated in the demonstration we are here to discuss today.

I would like to take a moment to outline five key goals of the demonstration, not only to explain how it differs from our TRA proposal in the past and builds on what we know works, but also how it will provide more opportunity for families we serve.

The first goal is long-term stability by helping owners preserve these homes and plan for the future by better managing investments the public has already made. For PHAs, this essentially means replacing operating and capital subsidies with 20-year, project-based Section 8 rental assistance contracts. For the Rent Sup and RAP programs, contracts would convert to Section 8 project-based rental assistance, PBRA, with 20-year terms, while Mod Rehab properties would be able to convert to long-term, 20-year Section 8 PBRA or project-based voucher contracts. These tools have widespread acceptance and familiarity among owners, those in the lending community, and those of us at HUD.

Indeed, the second goal is to allow these programs to access the same safe, proven tools that successfully support 1.4 million units of multifamily assisted housing and access the Low-Income Housing Tax Credit Program in particular. These tools have not only brought new capital to affordable housing, but also a discipline and rigor that extends to how these properties are managed.

The third goal is long-term affordability, saving properties for generations to come by better managing the investment the public has already made. For this demonstration, that means long-term assistance contracts and use agreements that would protect affordability in the event of foreclosure or for bankruptcy, should that happen.

And, indeed, the fourth goal is effective public ownership. The demonstration will ensure public housing properties remain under the ownership or control of a public housing authority or public or nonprofit entity or limited partnerships formed to access tax credits.

In the unlikely event of foreclosure—and I would note that, even in this economy, multifamily owners have defaulted on their loans less than one-half of 1 percent of the time—the Secretary would be permitted to transfer the contract and the use agreement to capable public and non-profit entities, and only when neither of those options is viable, may the Secretary seek the help of a for-profit entity in preserving the property. Regardless, the owner would be required to manage the property, guarantee its affordability, and maintain tenant rights in accordance with the use agreement.

The last goal of this demonstration is to provide more resident choice and real resident rights. Families should be able to choose where they live and take responsibility for their futures. Accordingly, we expect that at least 90 percent of the converted public housing and Mod Rehab units would provide residents with an option to move with voucher assistance. Residents will have an opportunity to comment on any conversion action, and they will not be subjected to rescreening, and they will be afforded strong procedural and organizing rights.

Underlying all these goals is the need for the private sector partnership, which is why we have designed this demonstration to capitalize on the capacity and the expertise the private sector can provide, particularly in the field of real estate finance and development. As we have seen in HOPE VI, many housing authorities have already collaborated with the private sector in a variety of ways, from securing FHA insurance, tax-exempt bond financing, private loans and tax credit investments, to legal and accounting assistance. And these are the kinds of collaborations that will be essential to the success of this demonstration.

As you know, the Senate Appropriations Subcommittee recently included language that authorizes a limited, cost-neutral demonstration targeted at public housing. While we support comprehensive authorization, we also believe it is reasonable to proceed, for now, with the option that has been included in the Senate Appropriations bill. And we are hopeful that this subcommittee will join with us in supporting this strategy while continuing to explore the broader authorization process.

But, Chairwoman Biggert, we believe the time has come to allow America's public housing system to take advantage of 30 years of innovations in the affordable housing finance arena, to connect millions of families to opportunity, to turn homes too often seen as neighborhood problems into community assets, and to make proven preservation tools available to all affordable housing programs. This demonstration represents an important step toward that goal.

I want to thank you again for this opportunity to testify today, and I would be happy to answer any questions that you may have.

[The prepared statement of Assistant Secretary Henriquez can be found on page 40 of the appendix.]

Chairwoman BIGGERT. Thank you.

Mr. Guerrero, you are recognized for 5 minutes.

STATEMENT OF ISMAEL GUERRERO, EXECUTIVE DIRECTOR, HOUSING AUTHORITY OF THE CITY AND COUNTY OF DENVER, COLORADO

Mr. GUERRERO. Good afternoon, Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee.

My name is Ismael Guerrero, and I am the executive director of the Denver Housing Authority. Prior to joining DHA, I was with U.S. Bank Community Development Corporation and before that, with Mercy Housing Corporation. So as a practitioner with over 15 years of experience in financing and community development, I want to thank you for this opportunity to provide some testimony on the Rental Assistance Demonstration proposal.

I am also a board member of the Council of Large Public Housing Authorities (CLPHA). CLPHA's members include 70 of the largest public housing authorities located in most major metropolitan areas in the United States. CLPHA has been working with numerous stakeholders on this rental assistance proposal and is also appreciative of the hearing that is happening today.

DHA is the largest housing authority in the Rocky Mountain region, with over 10,000 rent-subsidized housing units and Section 8 housing choice vouchers. In the last 4 years, DHA was ranked as one of the top multifamily developers in the Denver region. We con-

tinue to maintain a "high performer" status with HUD and simultaneously, an A-plus rating on our tax-exempt revenue bonds with Standard & Poor's.

We support the Rental Assistance Demonstration proposal because as a developer, an owner, and a manager of a diverse affordable housing portfolio, we understand the challenges and opportunities that face all housing authorities in managing their assets.

We believe the voluntary conversion option, which allows housing authorities the choice to convert from public housing to Section 8 project-based rental contracts, is urgently needed as an additional financing tool to address the growing backlog of capital improvement needs in our aging housing portfolio. The Denver Housing Authority today has capital needs of over $90 million, and with the persistent cuts that are happening, this will only continue to grow.

Because of the need to maintain our housing at standards that our residents deserve and our communities expect, DHA has become more creative and more resourceful in using all available Federal resources and programs. We have been awarded three HOPE VI Federal grants, we have utilized the Capital Fund Financing Program, and we have received multiple competitive capital grants through the American Recovery and Reinvestment Act, just to name a few. Through these one-time Federal grants totaling over $94 million, we have preserved over 1,100 public housing units, and, more importantly, we raised over $300 million in private debt and equity.

However, these efforts have improved less than a third of our total portfolio. The reality is that we need a more comprehensive and structural solution to the problem of maintaining, preserving, and transforming our aging and obsolete public housing portfolio. We need market-based solutions to maximize the leverage of Federal resources with private sector debt and equity.

We believe that the option to convert public housing operating and capital fund subsidies to Section 8 project-based contracts or vouchers is an important tool that should be made available to housing authorities of all sizes and in all regions.

Converting the ACC operating and capital funding structure to project-based rental assistance also brings us more in line with real estate industry practices and asset management. It should establish fair market rent standards that are predictable and rental contracts that are more stable than at the current public housing ACC operating subsidy. Our banking and equity partners understand fair market contract rents, but they have a harder time with operating subsidies based on complicated property expense-level calculations, which have a history of being arbitrarily prorated as much as 15 percent below actual expenses.

Our support of this demonstration program is based on real-time experience. We recently rehabbed a 190-unit public housing property. It required a $10 million Federal grant, and we were able to leverage $10.7 million in tax credit equity. Contrast that with a second example, a 224-unit DHA-owned property with a Section 8 HAP contract in place which we will rehab with zero Federal capital funds and a financing plan that includes $8.5 first mortgage and $11.4 million in tax credit equity. Both properties serve ex-

tremely low-income households with incomes that average approximately $10,000 a year.

We believe that a properly designed and funded demonstration program will allow more units to be recapitalized with less restrictive Federal funds and greater leverage of private debt and equity. In addition, a demonstration program will allow specific concerns to be studied and resolved, such as at the end of the day that the demonstration program should result in a true conversion from public housing to Section 8. We will have failed if, in the end, the result is a new hybrid program that multiplies, rather than eliminates, program rules and regulations.

Secondly, fair market rents are and continue to be the industry benchmark where an efficient owner-manager is able to operate. Trading artificial rental subsidy calculations or prorations will undermine the stated goals of the program.

And, finally, at DHA, we have a strong commitment to resident empowerment and resident engagement. This demonstration program should allow maximum flexibility for local housing authorities to work with their local resident leaders and stakeholders to create the policies and procedures around mobility options. At DHA, we believe that tenant rights should be coupled with tenant responsibilities, including the expectation of being a good neighbor and working toward self-sufficiency goals.

So, in closing, I want to reaffirm our support for the Rental Assistance Demonstration and to thank the committee for holding this hearing today. Thank you.

[The prepared statement of Mr. Guerrero can be found on page 33 of the appendix.]

Chairwoman BIGGERT. Thank you so much.

Mr. Hydinger, you are recognized for 5 minutes.

STATEMENT OF STEVEN C. HYDINGER, MANAGING DIRECTOR, BREC DEVELOPMENT, LLC

Mr. HYDINGER. Thank you very much, Chairwoman Biggert and members of the subcommittee. First of all, I want to thank you for allowing me to have the opportunity to speak to you about the Rental Assistance Demonstration program, known as "RAD."

My name is Steven Hydinger. I work with BREC Development from Birmingham, Alabama. We are a private developer, and we are proud to be a private developer. We have worked with many nonprofits in the past over many States, mostly along the east coast. And we are happy to work with HUD in many different venues, many different States.

I am very excited to talk about the RAD program, because when I look at this, it has all the elements of a great transaction, number one. Unfortunately, there is a tremendous amount of demand. In a perfect world, there would not be demand for low-income housing, but this is an economic reality. And when one looks out over the future, with the aging population, we are truly going have a crisis, as I mentioned in my testimony.

Number two, product. It is exciting because I have been in many conversations with public housing authorities where their hands have been tied and they have not been able to come up with the best solution because of what I would call regulatory handcuffs.

The RAD program certainly addresses these—namely, project-based Section 8, which would be paramount to the success of this program.

Number three, funding. It is exciting that there is no need to go ask for increased funding; the funding is in place in programs. This RAD program seems to be well thought out, and, from a private developer's standpoint, it seems to be something that is actionable. There are certainly programs that come out that we all look at that, when one views the program, there is skepticism from the get-go. I believe the way the RAD program is drafted and the direction in which it appears to be headed, it could be a great success to the many, many thousands of units that need the assistance.

One word of caution I would say is, much has been mentioned about the loss of product. Not all of that loss of product can be viewed as bad. Much of the product is completely outdated, functionally obsolescent, and needs to go by the wayside and needs to be redeveloped. My hope in this is that more and more private developers will be able to work with housing authorities and be able to come up with absolutely the best, most dynamic solution to this need that afflicts every State in the country.

I, again, appreciate your time. Thank you.

[The prepared statement of Mr. Hydinger can be found on page 51 of the appendix.]

Chairwoman BIGGERT. Thank you.

Mr. Elsesser, you are recognized for 5 minutes.

STATEMENT OF CHARLES ELSESSER, ATTORNEY, COMMUNITY JUSTICE PROJECT OF FLORIDA LEGAL SERVICES, ON BEHALF OF THE NATIONAL LOW INCOME HOUSING COALITION

Mr. ELSESSER. Thank you, Madam Chairwoman.

My name is Charles Elsesser. I am an attorney with the Community Justice Project of Florida Legal Services, and a member of the Board of Directors of the National Low Income Housing Coalition, which I am representing here today.

We want to thank the subcommittee chairwoman, Ms. Biggert, and the ranking member, Mr. Gutierrez, for providing us with this opportunity to provide input.

The National Low Income Housing Coalition is dedicated solely to achieving socially just public policy that assures that people with the lowest incomes have affordable and decent homes.

Despite the specter of vacant foreclosed homes in many communities, there is a continuing and increasing need for affordable housing, particularly for those families with the lowest incomes. In most communities, there is little if any decent, safe, unsubsidized housing affordable to extremely low-income households. Public housing specifically serves this extremely low-income population. Currently, there are approximately 2.3 million people living in public housing in the United States, with an average household income of approximately $13,350.

Unfortunately, this housing is aging, and for years, the public housing authorities have received less than necessary in capital replacement funding. Both the House and the Senate Fiscal Year 2012 HUD appropriations bills include further deep cuts to public housing capital funding. These continuing cuts, without any new

funding, leave public housing authorities without any recourse other than to apply for more demolitions and dispositions.

Tenant-based vouchers cannot replace public housing. We have learned from the massive demolitions and relocations that occurred through the HOPE VI programs and through the subsequent additional demolitions, resulting in a loss of over 150,000 units of public housing, that there is a significant percentage of the poorest households that are better served by public housing than by tenant-based vouchers for a number of reasons:

Public housing is more affordable. A tenant family pays a maximum of 30 percent of their income in rent, and there is no large security deposit. It is more supportive. There are neighbors and housing managers who are knowledgeable about the programs and can provide support and assistance. For the elderly in particular, it provides a location to provide services and allows people to age in place. Thus, public housing provides homes for a much higher percentage of elderly than the voucher program. For people with disabilities, it provides accessible housing without the often exhausting search required to utilize a Section 8 tenant-based voucher. And it is more secure for all families. Once you have a public housing unit, you can remain without fear of relocation. Tenant-based voucher recipients can be forced to repeatedly search for new housing at the end of each year, each time having to locate a new unit and obtain a new security deposit.

So public housing is vitally important, but how do we preserve it? The status quo is not the answer. The status quo means a continuing underfunding of capital repairs, a continuing deterioration of public housing, and a continuing loss of units through demolitions. And this is demolition of housing that can often be preserved but there is simply no funding source for that preservation. HOPE VI and Choice Neighborhoods initiatives, even if funded, preserve only a few neighborhoods in the entire country.

We need additional financial tools if we are to reverse this trend. We believe that the Department's Rental Assistance Demonstration proposal could provide that significant additional tool. The Coalition supports the RAD proposal because it meets the essential criteria which the Coalition and its members have developed to both provide additional resources and to protect the public housing communities and the residents.

The RAD requires resident participation throughout, both in development of the RAD program and in the local decision to utilize the RAD funding for a PHA or a project. It requires that the resident protections inherent in the public housing model be continued in the new funding mechanism, including a right to an informal hearing if denied admission, to grievance procedures for residents, and to adequate notice and good cause for eviction. It requires a continuation of public ownership or control.

Even in a foreclosure, the Secretary must continue public ownership unless it is simply not possible, and only then can the Secretary consider nonprofit or other ownership. It requires long-term use restrictions by mandating that the Secretary offer and the PHA accept renewals of the project-based contracts with all of the Federal requirements intact. And it provides an opportunity for residents to choose a Section 8 voucher and relocate outside of the

project while not jeopardizing the viability of the project-based financing itself.

And finally, it is a demonstration from which Congress and HUD can assess and learn from participating PHAs. This information will lead to even broader and better preservation efforts. And, also, the Coalition supports the RAD's attempts to provide options for Rental Supplement properties, Rental Assistance Program properties, and Section 8 Mod Rehab, all of which are significantly threatened without additional resources.

The Coalition would strongly urge passage of the RAD proposal and provide this resource for both residents and local PHAs in their efforts to preserve valuable public housing resources. Thank you.

[The prepared statement of Mr. Elsesser can be found on page 26 of the appendix.]

Chairwoman BIGGERT. Thank you so much.

We will now recognize Members for questions for 5 minutes each, and I will yield myself 5 minutes.

Ms. Henriquez, what aspects of RAD are absolutely essential for private lenders to view it as an investment-worthy project?

Ms. HENRIQUEZ. Not being a private lender, but my sense is that they will see—we are not asking them to take on a risk or do—they will do their own underwriting, as they normally do; they will approach these properties from a good business sense. They want the same sort of stability and the ability for this property to be viable in the longer term, so we don't see that there is a risk. We think that this is a market that will be—I wouldn't necessarily say new to them, but it will be an expanded market, since, as you have heard through the various testimonies, these are safe, proven methods.

But, more importantly, I think it will be helpful for a lender because, finally, we are moving the public housing portfolio to a tried and true real estate platform, as opposed to something that is just a little bit different, which means you have to be a bit of a contortionist to be able to understand and to do a product.

So this will be more straightforward. It will be in the norm, in the mainstream. And it is not any riskier than anything else that is underwritten.

Chairwoman BIGGERT. So, probably, one of the things that would be most essential for you is that it really is the intent of RAD to connect private capital with the development and rehabilitation of PHAs.

Ms. HENRIQUEZ. It is absolutely essential. We need to figure out how to preserve for the longer term the investment the taxpayer has already made. We need to do it with other private capital, because, clearly, the need and the level of renovation that is required for the long-term preservation cannot simply be met with today's dollars and annual allocations and appropriations.

Chairwoman BIGGERT. Thank you.

Mr. Guerrero, you talked about already having private sources for doing the Section 8. In your experience, is maintaining and administering public housing more or less expensive than Section 8 voucher programs that you also administer?

Mr. GUERRERO. Thank you for the question, Madam Chairwoman.

I think that, over time, there is an equalization that happens in terms of the cost of the two. There is certainly—the challenge with the public housing portfolio is that the capital funding tends to come in large, one-time grants. The annual appropriation is often minimally sufficient to maintain the properties but not to recapitalize them. Whereas, with a Section 8 contract, the contract rents, when set at fair market rents, have been sufficient to cover the operations, the upkeep, and the debt service that we need, when needed, to recapitalize a property.

So it is certainly more predictable funding with the Section 8 contracts than with the public housing.

Chairwoman BIGGERT. Is there a difference in size? In the past, in Chicago, we have had the Cabrini-Green and the Robert Taylor Homes, which were huge. And that has all changed now, to a lot smaller public housing. Is there a difference in using voucher 8 or the public housing, is there a difference in just what they look like?

Mr. GUERRERO. No. I think, certainly from the Denver Housing Authority's experience, our portfolio is very diverse. We have everything from single-family homes that are public housing units, fourplexes, duplexes, to 100-unit mid-rises, and, sort of, everything in between.

And so, I think that is why this demonstration program is important, because it creates another option. It is not going to be the solution for every housing authority; it is not going to be the solution for every property.

Chairwoman BIGGERT. Great. Thank you.

Mr. Hydinger, as a private developer, and others as well as your organization, do you have a real desire to engage in the activities detailed under the RAD proposal?

Mr. HYDINGER. Thank you for the question.

Yes, I think when the plan is finalized, I would imagine it would mirror many of the attributes of the Low-Income Housing Tax Credit program. As long as project-based Section 8 is in the plan in the final analysis, I think that is paramount to its success, and without that, you will not be able to get these projects underwritten in the private sector. And not only that, it will have to be a long-term project-based Section 8 contract. These are two things that run together. A 3-year commitment will not do it. It is going to need to be more in line with a 20-year committee.

Chairwoman BIGGERT. 20 years?

Mr. HYDINGER. And then just the regular real estate is going to have to be underwritten in a classic real estate sense.

So, yes, I am. I think, as was just mentioned with Mr. Guerrero, that there are certain properties this will work very well with, and I think those are the properties in some of the smaller PHAs that a lot of private developers would be able to assist greatly.

Chairwoman BIGGERT. Thank you.

And my time has expired. Mr. Gutierrez, you are recognized for 5 minutes.

Mr. GUTIERREZ. Thank you very much.

I want to ask you a couple of questions just in relationship because—I thank the gentlelady for raising Cabrini-Green and Robert

Taylor Homes, because one of the arguments was that there were too many people concentrated in too small an area. When Cabrini-Green became a very exclusive part of the City of Chicago, they had replacement housing. Now, when I travel through what was once Cabrini-Green, I don't see the same number of tenants or the same number of housing units that it replaced. That is to say, there were hundreds, if not thousands, of units that have not been replaced. People have been given Section 8 vouchers, or other kinds. And so, if we end the Section 8 voucher system—which there always seems to be problems in terms of funding and expanding and where people are going to get housing.

As I look at that—and you can go by, what is it, the house that Michael Jordan built on the west side of the City of Chicago. Nobody really thought of that as land that people would want and a community where people would want to create a community, right? But people were creating a community there and living there, so they tore it down. I just don't see the replacement housing for the people who once lived there.

Given that, Ms. Henriquez, what do you think? Is this program going to lead us to less responsibility on the part of government to provide housing and just a transition from public housing to no housing?

Ms. HENRIQUEZ. First, I would say it is not a transition from public housing to no housing. The whole point is to preserve the existing housing, and we think eventually we will be given the ability to create more housing. The demand has not lessened, and I don't think our responsibility has lessened either.

It is important to know that one of the things this—one of the lessons we hope to learn in this demonstration is what works. What works in Chicago does not work in Boston where I am from, and does not work in Denver where Ismael is from. And so, it is local strategies, it is to figure out what works in the community, and to reconnect that public housing into the landscape and the portfolio and the life of that neighborhood to make it a community asset. It is to stabilize for the longer term how that property performs, because if we don't have that property performing, it can't serve its mission to house low-income people. And these are tools—

Mr. GUTIERREZ. Then I guess I will look forward to seeing how the demonstration project—I believe you, and I don't question your authenticity and that you are coming to tell us exactly that those are your goals. You can almost take the words that you have just spoken and add them to programs where the housing has disappeared. As they said, the goal was to improve it.

In Chicago, even the consent decree, the Gautreaux consent decree, took poor black families and moved them into poor Latino neighborhoods, concentrating poverty once again, and taking a 25-by-125, 25-foot-wide-by-100, and putting 6 units into it, with the goal of, "We are going to build scattered-site housing." So I can take you to scattered-site housing that replaced it, and I assure you that in many instances, unfortunately, the quality of life of the people that the goal was for just didn't happen.

I hope that we can work really hard to figure out—because I know that is your goal and that is your mission and that is your

passion, to get there. I am just sharing with you, as a person who shares your goals and passion.

Ms. HENRIQUEZ. If I might, again, it is important, that is why we have proposed this as a demonstration: to see what does work; how it works; if there are lessons that send us back to the drawing table, to see exactly what we are doing before we suggest taking it to scale.

Mr. GUTIERREZ. So, Mr. Guerrero, what do you think the long-term impact, positive impact of this, what we are doing as a test program today, could possibly benefit in Denver?

Mr. GUERRERO. Certainly, as Ms. Henriquez said, local markets are different. I am from Chicago originally, so I am certainly familiar with what has happened there, and I can tell you that in Denver, it is certainly a different situation and a different solution.

Our interest and our support for the program is that we see this primarily as a preservation initiative, where this would allow us to convert one unit from one type of subsidy to another type of subsidy, with the goal of preserving that unit in perpetuity, as long as we are in the ownership structure, as an affordable housing unit.

And we have been successful in Denver in our HOPE VI development to do one-for-one on-site replacement through the HOPE VI effort. Again, we have a local—a different situation there, where we started with lower-density housing and were able to increase the density of what was there before, but always with the goal of preservation. So we certainly see that as a benefit here.

We do think there will be needs, and we have seen examples and have examples in Denver where we might want to reposition some units. As Mr. Hydinger said, not all units as they exist today are necessarily the most efficient place to have the affordable housing. So we certainly would look, in some parts of our portfolio, still to replace the units but not necessarily on-site; try to find more efficient ways to create the housing, both more sustainable, better designs, better able to serve the needs of the residents.

Mr. GUTIERREZ. Thank you so much.

Thank you, witnesses.

Chairwoman BIGGERT. Thank you.

Okay. The vice chair of the subcommittee, Mr. Hurt from Virginia, is recognized for 5 minutes.

Mr. HURT. Thank you, Madam Chairwoman, and thank you for holding this hearing.

Obviously, we are facing—and I want to thank each of you for being here today and providing information to this committee about this proposal.

Obviously, here in Washington, we face unprecedented challenges in balancing our budget. Obviously, the greatest concern I think that we have is, how do we do more with less? We are borrowing 40 cents on every dollar that we spend. So, obviously, things like this, what I would call market-oriented proposals like this, I think are the order of the day. And so I appreciate what you all have provided to us in explaining it.

I guess what I would like to know—Ms. Henriquez, maybe I could start with you? It seems to me that anytime you have a demonstration, anytime you have something that is sort of a test, you want to be able to measure its success. And I was wondering if you

could talk a little bit about how you see us benchmarking this. How do you measure the success of the program?

Obviously, I understand that we have capital needs that are significant. You have monetary needs that are significant. And I guess if we could just write a check for whatever we wanted to, we could solve all these problems, but that is not what we can do.

So I was wondering if you could talk about exactly what it is that will be a measure of success for this program, in as much as it is a demonstration.

Ms. HENRIQUEZ. First and foremost, I think one perspective is that the success is that the housing is stabilized and preserved so that it serves the people that we care the most about and so that residents are not harmed, residents are not having to leave their homes and their communities because of difficult conditions in their housing. So that is what undergirds all of this.

I would say another test of success is the willingness of the private sector to invest. And we have seen in the past 30 years that they have been quite willing to invest in these kinds of properties.

And I think the other test is, once that investment is made and housing authorities really have stepped up and improved the physical plant, the capital plant, how that property performs. Because, as I said earlier, the underlining remains the same. The property has to perform in that financial market arena the way any other property would have to perform, and yet continue on, also, to serve the people it is meant to serve.

I think those are tests. I think we see what the appetite is in the free market as we put more and more of these deals together. And as housing authorities decide what works for themselves, we are asking them then also to be very judicious and to evaluate and monitor what they have done, how they work with their residents, to make sure this demonstration rolls out well and smoothly and what are the benchmarks.

So we are asking the financial community to look to make sure it performs and they are okay. We are asking residents to look at how they feel this process is going. And everyone who touches that process will have to help inform how well this demonstration has performed.

Mr. HURT. I appreciate that. And I also appreciate, obviously, your commitment, the commitment, it seems, of each of you who are in this business, to providing good housing for people who need assistance.

But I guess what I didn't hear there and wonder if you could elaborate on is, do you think that we end up saving money doing this? If you are looking out for the taxpayer, if you are trying to look at it from that standpoint, it seems to me that would be a—

Ms. HENRIQUEZ. Undoubtedly.

Mr. HURT. —worthy goal, right?

Ms. HENRIQUEZ. It is. As I said earlier in my testimony, we really want to preserve the taxpayers' 75-year investment moving forward. It needs to be preserved, but it is a pace and a need, a level of funding that can't be matched and is not being matched year after year. And so, yes—

Mr. HURT. Here in Washington?

Ms. HENRIQUEZ. Here in Washington.

Mr. HURT. Right.

Ms. HENRIQUEZ. So, therefore, having investment income, private equity coming into these properties really does save, overall, the Federal Government. It helps partner public and private money together. With the bulk of that, you have heard—in the HOPE VI program, for example, we are leveraging not just dollar for dollar, generally $2 of private equity for every dollar of Federal money. In some instances, in some communities, that leverage may be three, four, sometimes as much as eight to one. And as those economics bear out, the savings are generally there. They are front and foremost.

Mr. HURT. Thank you very much. That answered my question. That is my time. Thank you.

Chairwoman BIGGERT. The gentleman from Missouri, Mr. Clay, is recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman, and I thank the witnesses for being here today.

Let me ask you just a few things about this proposal, and anyone on the panel can take a stab at it.

How will the PHAs and HUD address this displacement of tenants when rehabbing of units occurs? Has anyone thought about a plan for that?

Let's start here. Mr. Elsesser?

Mr. ELSESSER. Thank you for the question, Mr. Clay.

I think that the temporary displacement during rehabilitation is a really important question. I think HUD does have in place rules and requirements for the counseling and the displacement of tenants. I think that is a vital part of it.

And I think it is not a question of the necessity of putting that in this proposal so much as enforcing the rules that already exist. You want to make sure that the tenants have a place to go, that they receive counseling before they move, and that if they want to remain offsite, they can remain offsite, and that they do have a right to return.

One of the important features of this proposal that has been missing sometimes in the past is, if the tenants do want to return, they have a right to return without having to go through an entire rescreening process.

Mr. CLAY. And that will remain in place under this proposal?

Mr. ELSESSER. That would allow them to come back to the units and not to apply as if they were, sort of, just coming in off the street.

Mr. CLAY. Okay.

Mr. Guerrero, anything to add?

Mr. GUERRERO. If I may provide a perspective from the Housing Authority, we have certainly learned in Denver that for the sake of the families, it is much better to do phased development versus wholesale redevelopment, where you displace the entire community for a longer period of time.

And we have been successful on two different occasions in doing the redevelopment in phases, where we are moving a portion of the community out for a shorter period of time and then rotating through the rehab process, so that over time families are moving from one unit to another, staying in their communities, staying

close to their support networks and to their other family members, rather than being relocated for an extended period of time, where they get disconnected from the community. And we have had success both in public housing and in the Section 8 rehab with that.

Mr. CLAY. Okay.

Ms. Henriquez—Secretary?

Ms. HENRIQUEZ. It is absolutely essential that tenant rights carry over, that tenants have the ability to participate meaningfully in the conversion discussions at a housing authority before they even apply for a conversion, and that they are consulted in a meaningful way throughout the entire process, and that includes relocation, relocation rights, their ability to return.

My expectation is that housing authorities, in so doing, will actually work with residents, both with a broad relocation policy and then tailor individual relocation plans, baskets of services, around each family as they transition offsite, make their decisions about their right to return.

This is not about gentrification; it is about bringing people back to their community in a stable way.

Mr. CLAY. Okay.

I am going to ask you and Mr. Hydinger a separate question about tenant environment. Will those who live in and around these public housing facilities be able to participate in a meaningful way, especially those who are chronically unemployed and those who qualify under Section 3, be eligible to work on these projects? Is there some kind of plan that you have considered to actually create employment opportunities for the people?

Ms. HENRIQUEZ. Section 3 is a requirement for all public housing authorities. So as they move forward in the development of their construction plans, hiring their contractors and so on to do the work, it is fully our expectation—and we will be monitoring—that residents both of the public housing development that is being preserved as well people who are similarly situated in the community have an opportunity to participate in employment moving forward as those properties get redeveloped.

Mr. CLAY. Mr. Hydinger, being a developer, do you involve Section-3-eligible employees in your developments now?

Mr. HYDINGER. What we do is we encourage the general contractors to hire from the property as much as possible. And when that is possible, there is a certain pride of ownership that comes with that. And we have been successful, seeing that occur from time to time.

It is—I will not embellish it. It does not happen as often as we would like—

Mr. CLAY. Sure.

Mr. HYDINGER. —but it does happen. And I think it is a success every time it does occur.

Mr. CLAY. It should occur more often, shouldn't it?

Mr. HYDINGER. If the person who is applying is able and willing to work, absolutely.

Mr. CLAY. My time is up. Thank you.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Missouri is recognized.

Mr. CLEAVER. Which one?

Chairwoman BIGGERT. Mr. Cleaver?

Mr. CLEAVER. Thank you, Madam Chairwoman.

Chairwoman BIGGERT. I am not calling on Mr. Clay again until we have—

Mr. CLEAVER. Thank you, Madam Chairwoman.

The Rental Assistance Program that my colleague, our colleague introduced a few months ago—and I had a chance to talk with him for just a few moments before coming in—Mr. Ellison, is something that I support wholeheartedly. I am one of the cosponsors.

But I have some questions for you, Ms. Henriquez. If public housing authorities are actually able to hold debt, does that not create the opportunity for foreclosure?

Ms. HENRIQUEZ. Whenever any entity holds debt, there is an opportunity for foreclosure. We have 30 years, thus far, of practice with proven, safe tools on financing that we really on that will carry forward in this demonstration. And over that 30-year history, we have learned, for example, that on the multifamily side, the default rate, if you will, is less than half of 1 percent. Even in the current fiscal environment, it is very, very, very small.

In addition, the way in which this demonstration is constructed, that even if there should be, by some slim chance there should be a foreclosure or a default, all of the use-agreement restrictions carry forward. Tenant protection rights are still in place. Long-term affordability is still in place. And so the purpose of the housing remains, the affordability remains, and we have the ability then to have that property, with the use agreements in place, picked up by another not-for-profit or public sector entity, another housing authority. The Secretary has the ability to make that change in ownership, always underlined by the long-term affordability and the tenant protections going forward.

Mr. CLEAVER. I can say of this project what I used to say, and I will change it, modify it. I would say, McDonald's is the only entity I have known not to go bankrupt or go into default. So we can now add public housing authorities.

Ms. HENRIQUEZ. I don't see them going into default.

Mr. CLEAVER. Okay. I am okay with it.

The other concern is maybe more significant—a more significant concern is, if you have seen the HUD appropriations markup, the marked-up House and Senate—you are not getting what you asked for. So my concern is, if you ask for $200 million and you get—I don't know what—you are not getting what you asked for. So what does that do to the program?

Ms. HENRIQUEZ. We think the program is important. It provides a direction, a blueprint for us to model, to move forward. So if we are not getting what we asked for, we need to then scale the program.

Mr. CLEAVER. I know—

Ms. HENRIQUEZ. In addition—I am sorry. In addition, what we have said is we have seen the Senate mark on this, asking us to look at a no-cost demonstration. We would support this committee looking at that option as well. And we are prepared still to go forward with a demonstration at a no-cost proposal because we think that the direction is absolutely a sound one. It is what is needed

for this portfolio. In the longer term, there are lessons for us to learn and then to take it to scale over time.

Mr. CLEAVER. I want to talk to you further about that, because I don't want the failure for the Senate and the House to give sufficient money for the demonstration and then end up in this subcommittee hearing again with people complaining that the demonstration was far too imperfect.

We can talk, because I need to ask one more question, Madam Chairwoman, and I will do it very quickly. I am concerned with making sure that the demonstration project doesn't result in a loss of units, that we still have the one-for-one.

Ms. HENRIQUEZ. What we will have is in most circumstances, we will probably have one for one. I think I would say to you, though, that in limited circumstances, given market conditions, that indeed there may be some other ways to come at that replacement housing in a community. But for the most part, we are looking not to lose units in this preservation strategy.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Chairwoman BIGGERT. Thank you. The gentleman from Minnesota is recognized for 5 minutes.

Mr. ELLISON. Thank you, Madam Chairwoman. I am going to ask you a question, a general question about housing, low-income affordable housing. For people who make, like, 30 percent of the median income in a given area, would you say the housing options for them are plentiful or scarce? How would you characterize that?

Ms. HENRIQUEZ. Are you asking me?

Mr. ELLISON. Anybody. I am actually asking anybody.

Ms. HENRIQUEZ. I think that it is difficult, that the demand far exceeds the supply, and that there are fewer and fewer options available unless families—when you start thinking about transportation costs and housing costs—are paying in excess of 50 percent of disposable income on those two commodities alone.

Mr. ELLISON. Has the foreclosure crisis, the way it affects not only homeowners but also tenants—because, of course, landlords get foreclosed on too—has this exacerbated the pressure on low-income affordable housing or has it eased it?

Ms. HENRIQUEZ. It has exacerbated it in a number of ways. One, we are finding that the normal turnover time, the people come in, stay, and then move out through their own choice—the people are staying longer. We are finding that people are poorer as they come into the program, and we find that both on the voucher program and on the public housing program that people are, I think, eager for more and more economic self-sufficiency and want to get themselves prepared, but it is tough fiscal times for the very poor.

Mr. ELLISON. Based on the history of Congress appropriating money for maintenance of assets of public housing, do you think that we have a realistic chance of ever getting the $26 billion in maintenance needs that exist right now as an appropriation?

Ms. HENRIQUEZ. I want to put my former hat on when I answer this question. For 13 years, I ran the Boston Housing Authority. As a former executive director, I would say if there is the political will to do that in this country, we can do anything that we put our minds to.

Mr. ELLISON. Based on history, do you see it coming up?

Ms. HENRIQUEZ. Given the history and the trend, I don't see that happening. And that is why it is vitally important that we look to this rental assistance demonstration. We are being realistic about the current financial times we are in. We are being realistic about the need for us, both at HUD as an asset manager and for housing authorities, to be good landlords. And in part, a large part of that being a good landlord is providing the kind of safe, affordable, decent housing that meets code and expectations in local communities—

Mr. ELLISON. Thank you.

I would like to open this question up to everybody. When I introduced the bill that is similar to this one—this is a demonstration bill; I had a bill that was more broad-based. I am a hardcore believer in public housing. I think it is a very important program. But some of my friends say, are you trying to help folks privatize public housing? And I said, absolutely not. This is a way to get some lights on and some fixtures, and this place to be a better place. But how do you respond to that criticism that this could end up being a provision of public housing? How do you react to that particular criticism? And I would invite anyone to respond.

Mr. ELSESSER. Mr. Ellison, if I might. I have worked with many people around your bill on a continuing discussion—the coalition—the continuing discussion since that time about that very subject. And I can agree with you that there is a lot of concern among residents who saw a major loss of housing through HOPE VI and other events like that. And we are very fearful of anything.

And I think the Secretary and the Assistant Secretary, to their credit, reached out, and through your bill in addition, reached out and worked very hard with people. And I think this bill is a result of that working to both try to incorporate protections to the greatest extent possible, from the public housing side to allay those fears. And at the same time, a realization amongst the residents that the status quo is not working; that the status quo does not mean we are not losing housing; we are losing housing. So we have to do something. And I think both of those things have come together, and I think that is why there is such support for this proposal.

Mr. ELLISON. I think we have it—if we are not done—

Mr. GUERRERO. I would like to add something.

Chairwoman BIGGERT. One more.

Mr. ELLISON. Thank you.

Mr. GUERRERO. I think—two points, I guess I would make to your question. One is that when you only think about serving families through subsidized housing, we should look at it not exclusively through whether it is public housing or Section 8 or so forth, but are we serving the most families at the lowest incomes for the longest period of time in whatever form that may take. I don't see a shift from public housing to project-based Section 8 subsidies as a loss of units in any way, because recently our experience is that we are serving the same number of families with the same incomes for the same periods of time, if not more.

The other thought I would put out there for consideration is that it is not necessarily a cost-savings strategy, but maybe a better return-on-investment strategy, where today $1 of capital fund gets

you, just for example, $1 of improvement. But our experience I think is a dollar of Section 8 half rent might get us $2 of capital improvements because we are able to leverage that more effectively in the private sector through loans and through equity.

Mr. ELLISON. Thank you, sir. Thank you, Madam Chairwoman.

Chairwoman BIGGERT. Thank you. And I would have just a couple of questions with hopefully short answers.

But first of all, Mr. Guerrero, you talk about the local decision making. And it seems like you have been doing Moving to Work. Are you part of that?

Mr. GUERRERO. We are not a Moving to Work—we would like to be a Moving to Work agency.

Chairwoman BIGGERT. Do you think Moving to Work would provide the flexibility and local decision-making and innovative financial methods you have described in the public housing authorities in order to develop the local solutions? Do you think this is really part of what we are talking about?

Mr. GUERRERO. Absolutely. I think the flexibility, the ability to craft solutions locally with not only our residents but our local elected officials, local community stakeholders, is invaluable in that the option should be there for more housing authorities than currently have the designation. I think there are a lot of lessons learned already and best practices for Moving to Work that can be mainstreamed and regulatory relief that can be implemented now to give us more flexibility than we have, yes.

Chairwoman BIGGERT. Okay. And then, Ms. Henriquez, how were participants in the multifamily and affordable housing developer community consulted during the development of RAD?

Ms. HENRIQUEZ. Much like we did in the public housing side. My colleagues on the multifamily side, we had stakeholder convenings, we have had some with housing authorities, we had some with multifamily owners. There was a lot of outreach through State housing finance agencies. There was a working committee that was put together so that the issues that they would raise that might be particular to a multifamily owner were addressed and talked about, and how did those line up with where public housing authorities might be. So we really put people together in lots of different ways to have this conversation.

Chairwoman BIGGERT. How did you find out about this, Mr. Hydinger?

Mr. HYDINGER. I was called and asked some questions, and, through a series of conversations, asked for my input. Would private capital, private investors, developers, etc., be welcomed to the program? And, frankly, I said no, not the way it was written right now. I hope that it will be. And I would like to just say that private is not bad. It really isn't. Lots of people own affordable housing that are private developers and private owners, and they do quite well and they are governed by HUD. So Halloween is over, the bogeyman about the private sector is not all bad. I just want to be sure that we keep that in mind. But I do appreciate the input.

Chairwoman BIGGERT. Thank you.

And then, Ms. Henriquez, how does HUD intend to analyze the outcomes of the demonstration? What are the next steps that HUD is contemplating once you are able to observe the outcomes of

RAD? And how long will it take for the demonstration to provide adequate data for an analysis?

Ms. HENRIQUEZ. I think we are probably talking as a demonstration for several years because we really do want both housing authorities and their residents to be thoughtful about what they are proposing, which properties they are thinking about bringing in and how they are going to do that, number one. They also have to put together physical plans about how they are going to use the capital dollars, how they are going to get into the marketplace, whether they are going to use commercial financing, whether they are going to use tax credits. All of that is a local decision that housing authorities, their communities, and their residents need to talk about.

Once that happens and there is an application and people voluntarily decide what this program means and what it is going to look like for them at the local level, by the time we think that they get the plans in place, they get the funding in place and their financing straightened out and actually begin the work—relocation of residents, actually doing the physical work, moving people back in—that is a multiyear process. We want to look at along the way what is going on, what those impacts are both on residents and on the housing authority and on the financial community.

So I think we are looking at several years before we really get a body of work to assess and then make some judgments about growing the program and the lessons learned, and coming back to have conversations with all of you as well about those lessons learned before we take the next step.

Chairwoman BIGGERT. Thank you. Do any of you recommend any improvements or modifications or further considerations considering RAD at this time? I guess not. So it sounds like you are all willing and able to do that.

Ms. Henriquez, were you in charge of bringing all of these shareholders, stakeholders I should say, together to come up with RAD?

Ms. HENRIQUEZ. In charge of. So, working with—

Chairwoman BIGGERT. I am just wondering where this idea all came from.

Ms. HENRIQUEZ. We have had several iterations of a bill in the past 18 months or so. We heard lots of conversations, and so a lot of times as we talked about this—there is a group at HUD, it is collaborative. It is in the multifamily side as well as the public housing side, and we jointly sort of ran this program and these ideas. And so Carol Galante and I were co-conveners. We have staff who worked with each other as well. And we have just been running this to ground. We have people actually doing lots of—and some of them are here behind me—actually running numbers, looking at permutations, trying to figure out strategies, looking at the environment, just everything. And then listening to residents and housing authorities, from lenders about this works, this might not, and really running to ground. And then we really had a group of people come and say, we think it could work this way; what do you think, HUD? We have talked about that. And so, what you see is where we are with this demonstration now.

Chairwoman BIGGERT. Thank you. And thank you for initiating such a deliberative process. That is what we are working to do

with—to develop Section 8 as well. I really appreciate all of your work. Are there any other questions? Mr. Hurt?

Thank you. And I would ask unanimous consent to insert the following material into the record: an October 11, 2011, letter from the U.S. Department of Housing and Urban Development; an October 31, 2011, letter from the Housing Assistance Council; a September 14, 2011, letter from the Coalition of Housing Industries; and a November 2, 2011, letter from the National Association of Housing and Redevelopment Officials.

And without objection, all Members' opening statements will be made a part of the record. The Chair notes that some Members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place their responses in the record.

And I would like to thank you all. I think this has been a great hearing and it has given us a lot of information. And I hope that we really can move ahead with this. This is such an important issue. And thank you all for being here. With that, this hearing is adjourned.

[Whereupon, at 4:12 p.m., the hearing was adjourned.]

A P P E N D I X

November 3, 2011

NATIONAL LOW INCOME
HOUSING COALITION

Sheila Crowley, President
Board of Directors
George Moses, Chair
Pittsburgh, PA
Mark Allison
Albuquerque, NM
William C. Apgar
Cambridge, MA
David Bowers
Washington, DC
Mary Brooks
Frazier Park, CA
Gail Burks
Las Vegas, NV
Maria Cabildo
Los Angeles, CA
Delorise Calhoun
Cincinnati, OH
Donald Chamberlain
Seattle, WA
Brenda J. Clement
Pawtucket, RI
Marcie Cohen
Washington, DC
Lot Diaz
Washington, DC
Charles Elsesser, Jr.
Miami, FL
Bill Faith (Honorary)
Columbus, OH
Daisy Franklin
Norwalk, CT
Matt Gerard
Minneapolis, MN
Lisa Hasegawa
Washington, DC
Linda Leaks
Washington, DC
Moises Loza (Honorary)
Washington, DC
Reymundo Ocanas
Houston, TX
Greg Payne
Portland, ME
Tara Rollins
Salt Lake City, UT
Martha Weatherspoon
Clarksville, TN
Paul Weech
Washington, DC
Leonard Williams
Buffalo, NY

Founded in 1974 by
Cushing N. Dolbeare

Testimony of Charles Elsesser
Attorney, Community Justice Project of Florida Legal Services
on behalf of
the National Low Income Housing Coalition

Presented to the
Subcommittee on Insurance, Housing and Community Opportunity
House Committee on Financial Services
U.S. House of Representatives
"The Obama Administration's Rental Assistance Demonstration Proposal"
November 3, 2011

My name is Charles Elsesser. I am an attorney with the Community Justice Project, a project of Florida Legal Services, and a member of the Board of Directors of the National Low Income Housing Coalition, which I am representing here today. We want to thank Subcommittee Chair Judy Biggert and Ranking Member Luis Gutierrez for your leadership on housing issues impacting the lowest income people.

The National Low Income Housing Coalition (NLIHC) is dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes. Our members include nonprofit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, residents of public and assisted housing and their organizations, and concerned citizens. The National Low Income Housing Coalition does not represent any sector of the housing industry. Rather, NLIHC works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems. NLIHC is entirely funded with private donations.

The Community Justice Project, a project of Florida Legal Services, Inc., was founded in 2008 to provide legal support to grassroots community organizations in Miami's low income communities. Rooted in the law and organizing movement among poverty lawyers, the CJP's style of law practice is fundamentally rooted in the belief that those most impacted by marginalization or oppression lead their own fight for social justice. The CJP believes lawyers are most effective when they support community organizations accountable to the persons most affected by social injustice. The CJP's current priority areas are affordable housing and workers rights.

Need for Affordable Housing

Housing affordability is on the decline for extremely low income people in the United States. In 2009, there were 10 million extremely low income households but only 6.5 million units affordable to this income group. Between 2007 and 2009, this shortage of affordable units increased by 1.3 million units. When affordable *and available* units are analyzed, the gap of housing available to extremely low income households increases to 6 million units nationwide. To put it another way, for every 100 extremely low income households, there were only 39 affordable and available units in 2009. [1]

Public housing serves this extremely low income population most in need of affordable housing. The nation's public housing program houses 2.3 million people, with an average household annual income of $13,351.[2]

But, we are losing thousands of public housing units each year through demolition, disposition and other processes. Just since 2000, HUD has approved the demolition or disposition of more than 100,000 units of public housing. Most of this public housing is not replaced with new public housing, but with housing choice vouchers. While NLIHC strongly supports the voucher program, we understand that we need both: to preserve existing public housing and to support the voucher program. The reality is that communities need both hard public housing units and tenant-based rental assistance vouchers, and that one is not an adequate substitute for the other.

Public housing is often able to better serve a lower income population than vouchers because public housing is often more affordable than having a voucher, which can require security and utility deposits that are prohibitively expensive.

Public housing is also home to an older population than exists in the voucher program. Public housing settings offer a location to provide services, to public housing residents and others, that allow people to age in place. For a sub-set of people with disabilities, public housing can also be more beneficial than vouchers because it is often difficult to find accessible units in the private market and because people with disabilities may have difficulty searching for a home with a voucher. And, without proper counseling, the costs and other difficulties inherent in moving with a voucher can force any household into neighborhoods they might rather avoid or force them to give up their rental assistance altogether.

Annual funding for public housing has also consistently fallen short of what is needed to adequately maintain public housing. In June, HUD issued a study documenting almost $26 billion in major repair needs in public housing.[3] The underfunding that caused this $26 billion backlog continues today. The House Appropriations Subcommittee on Transportation, Housing and Urban Development and Related Agencies FY12 bill would provide 25% less than HUD

[1] Pelletiere D. (2011, January). A Preliminary Analysis of the 2009 and 2007 Rental Affordability Gaps. *National Low Income Housing Coalition.*

[2] HUD *Resident Characteristics Report*, as of September 30, 2011. At https://pic.hud.gov/pic/RCRPublic/rcrmain.asp

[3] HUD. June 2011. Capital Needs in the Public Housing Program.

received for the capital fund in FY11. The THUD bill passed by the Senate on November 1 would provide an 8% cut compared to FY11.

Even if everyone agreed that we must preserve our nation's investment in public housing, both public housing residents and public housing agencies are left with few avenues to maintain public housing for the lowest income people. NLIHC is optimistic that the Rental Assistance Demonstration as proposed by the Department of Housing and Urban Development in August 2011 legislative language could benefit communities intent on preserving their public housing stock but for whom there simply are not the tools to do so.

The status quo, where years of public housing underfunding cannot be addressed by even those communities most intent on saving public housing, is not working. Nor is the status quo poised to work in the future. Both the House and the Senate FY12 HUD appropriations bills include deep cuts to public housing, cuts which indicate that demolition and disposition applications to HUD will only increase as PHAs have no recourse.

NLIHC has been involved in HUD discussions regarding a public housing conversion proposal since early 2009, when the current Administration began stakeholder discussions on what a conversion process might look like. NLIHC has been optimistic that converting public housing subsidies to a new form of subsidy, one that might be better at attracting and servicing private debt, could provide a way for communities to preserve public housing that protected residents, protected the public's investment in the stock, and ensured long-term use and affordability restrictions. While the proposal HUD circulated in 2010 fell short on most of these measures, NLIHC continued to work with HUD on a more viable proposal in our effort to support public housing.

In early 2011, NLIHC joined several stakeholder groups to work independently from HUD on a conversion proposal, based on the language HUD requested in its FY12 budget. Eventually, this stakeholder groups' work merged with HUD's work on RAD legislative language. NLIHC was pleased that we were able to support HUD's legislative language authorizing RAD, which HUD circulated to House and Senate offices in August 2011. Indeed, all members of the stakeholder group publicly supported HUD's August language in a September 14 letter to House housing leadership, which is attached to my testimony.

NLIHC Support for HUD's RAD Language

NLIHC is able to support HUD's August RAD proposal because: it includes resident participation requirements and ensures resident protections and rights are maintained by residents under conversion; it ensures mission-driven public housing ownership to the greatest extent possible; it has clear requirements for long-term use and affordability restrictions, which are critical to assisting the lowest income households in an affordable way; and, it includes a "choice" component where most public housing residents in converted units would have the opportunity to move with a tenant-based voucher. NLIHC also supports that RAD is a voluntary demonstration and would be limited to a certain number of agencies or units in order to evaluate and assess new opportunities to preserve public housing undertaken under RAD authorities.

Resident Participation
HUD's August language includes requirements for HUD to issue for public comment rules regarding RAD, including rules for consultation on RAD by the PHA's Resident Advisory Board and residents of the properties proposed for participation in RAD. NLIHC would also support RAD provisions that allow for ongoing input on the conversion by requiring a PHA Plan process in the converted property. The HUD RAD language also provides assisted residents in the converted properties the right to participate in a legitimate tenant organization, which must be recognized by the owner, another provision strongly supported by NLIHC. HUD's proposed language also authorizes funding for the demonstration, which may be used for these tenant organizations.

Resident Rights and Protections
NLIHC also supports HUD's RAD language because it would provide rights equivalent to those in the public housing program regarding the right to an informal hearing if denied admission, grievance procedures for residents, and adequate notice of, and good cause for, eviction. These rights under Section 6 of the U.S. Housing Act are critical to convey during any conversion of public housing subsidy.

Mission-Driven Ownership
HUD's RAD language also includes extremely important language to ensure, to the greatest extent possible, that the owner of public housing is either a public or nonprofit entity. Even after a foreclosure, bankruptcy, or termination or transfer of assistance for material violations or substantial default, HUD's proposal sets out a waterfall of ownership options, beginning with priority for ownership or control by a public entity, then to a nonprofit, and then, only where such entities are not available, to a capable other entity. NLIHC believes that such ownership requirements are necessary not only to protect the public's long-term and significant investment in public housing but also to demonstrate Congress's and HUD's commitment to preserving public housing in the future.

Long-term Use and Affordability Restrictions
Another key NLIHC priority is also included in HUD's August RAD language: requirements that HUD offer, and the owner accept, renewal of each expiring contract of assistance. Requiring HUD to offer and the owner to accept contract renewals will ensure that the use restrictions on these converted units, including for income targeting and affordability, will be maintained in the future. In just a few phrases, this language in HUD's RAD proposal expresses the nation's commitment to public housing as a needed safety net for the nation's lowest income households.

Choice Component
NLIHC also supports HUD's RAD proposal's "choice" component. Here, at least 90% of the total number of assisted units in all properties participating in the demonstration would be subject to a requirement that the PHA test options to provide all assisted residents with a choice to move with a housing choice voucher. NLIHC had long advocated that any HUD proposal also include an authorization of new vouchers to make this choice component a reality. While HUD's August RAD language did not include any authorization of new vouchers,

by including this choice component for 90% of the converted units, HUD's proposal would have provided public housing residents with mobility options they currently do not have.

Rent Supplement, Section 236 Rental Assistance and Section 8 Mod Rehab Programs
NLIHC is also pleased that HUD's August RAD language attempts to provide options to preserve Rent Supp and RAP properties, which currently have no viable options to renew rental assistance. HUD's RAD proposal also addresses Section 8 Mod Rehab properties, which cannot attract necessary resources for rehabilitation. NLIHC supports development of a policy that would permit HUD the flexibility to permit owners and PHAs to project-base tenant protection and enhanced vouchers in these properties, where warranted by local conditions. The project-basing policy should also cover properties where vouchers have already been issued for tenants still in residence or will be issued in the future from a conversion event, with resident consultation throughout the process.

Passage of Conversion Authority
NLIHC urges Congress to enact RAD as soon as possible. As the nation loses more than 10,000 public housing units a year to demolition and disposition, we feel we must begin to test, evaluate and identify ways to allow PHAs to preserve this housing stock while providing residents input in the process, protecting the nation's investment, and continuing to serve the lowest income households in an affordable way.

NLIHC believes that RAD is one of many solutions that, together, would address our nation's affordable housing needs. In addition to RAD, NLIHC also encourages members of this Subcommittee to protect and fund the National Housing Trust fund in any Government Sponsored Enterprises reform legislation considered by the full Financial Services Committee.

Thank you for considering our comments.

September 14, 2011

- Transmitted by Email -

Representative Harold Rogers, Chairman
Committee on Appropriations
U. S. House of Representatives
H-307 Capitol Building
Washington, DC 20515

Representative Norman Dicks, Ranking Member
Committee on Appropriations
U. S. House of Representatives
H-307 Capitol Building
Washington, DC 20515

Representative Spencer Bachus, Chairman
Committee on Financial Services
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Representative Barney Frank, Ranking Member
Committee on Financial Services
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairmen and Ranking Members:

The undersigned organizations are writing in support of the attached draft legislative proposal which would authorize a program to test the conversion of units assisted under public housing to project-based Section 8 subsidies. The draft was prepared by the U.S. Department of Housing and Urban Development (HUD) at the request of various members of Congress. We strongly urge you to support including this proposal in any appropriate authorizing bill or in the fiscal year 2012 HUD appropriations bill.

For the past several months, HUD has worked with public and affordable housing stakeholders to design this "Rental Assistance Demonstration" (RAD) program and to draft legislation authorizing the program. The RAD demonstration would allow conversions to be tested on a limited scale, so they can be evaluated and the results can inform Congressional consideration of implementing public housing conversions more broadly.

A recent HUD study on the capital needs of public housing shows that more than $26 billion in unmet capital needs exist in public housing. Despite the yearly federal allocation to the Public Housing Capital Fund, this backlog has persisted for many years simply because the federal expenditures have not kept pace with the modernization, rehabilitation and recapitalization needs in public housing. Given the current budget environment, it is also not likely that federal expenditures alone will ever be sufficient to meet the need.

Conversion of some public housing developments to Section 8 assistance offers a cost-effective, market-based way to address capital needs in public housing, because it would better enable housing authorities to leverage private investment to renovate and preserve developments. While RAD will primarily focus on public housing conversions, owners of Moderate Rehabilitation and Rent Supplement/Rental Assistance properties, which currently lack a viable renewal option and are at risk of being lost from the affordable housing inventory as a result, will also be eligible for assistance under this legislation.

The RAD legislative proposal is attached. We urge you to include this legislation in the FY2012 THUD appropriations bill to help enable PHAs to preserve our public housing stock and increase the supply of housing affordable to very low-income households. Thank you for considering this request. We look forward to working with you on this important issue.

Sincerely,

Center on Budget and Policy Priorities
Council of Large Public Housing Authorities
Enterprise Community Partners
Local Initiatives Support Corporation
National Housing and Rehabilitation Association
National Leased Housing Association
National Low Income Housing Coalition
Poverty & Race Research Action Council
Rod Solomon, Hawkins Delafield & Wood LLP
Stewards of Affordable Housing for the Future

Attachment

cc:
Members, U. S. House of Representatives, Committee on Appropriations
Members, U. S. House of Representatives, Committee on Financial Services
Secretary Shaun Donovan, U. S. Department of Housing and Urban Development

Testimony of
Ismael Guerrero, Executive Director
Housing Authority of the City and County of Denver, Colorado

before the U.S. House of Representatives Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity

November 3, 2011

Madam Chair Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, my name is Ismael Guerrero and I am the Executive Director of the Housing Authority of the City and County of Denver, in the great state of Colorado. Thank you for the opportunity to provide testimony on the Rental Assistance Demonstration proposal to preserve and improve public housing through voluntary conversion in Denver and across the nation.

Introduction
Denver Housing Authority is the largest housing authority in the Rocky Mountain Region, and DHA is the largest landlord of subsidized rental housing in the city of Denver. Collectively, DHA serves over 25,000 residents through a combination of public housing, project-based Section 8 housing, mixed-income tax credit housing, and Section 8 Housing Choice Vouchers. For over 70 years, DHA has provided safe and decent affordable housing to the lowest income families, seniors, and disabled individuals in Denver.

Today, we are on a mission to transform our most distressed public housing into vibrant, thriving neighborhoods of choice where families have good schools and access to opportunities, where seniors can age in place, and where people with a diversity of incomes, from downtown working professionals to the formerly homeless, have housing options. In the last four years, DHA has been ranked as one of the top multifamily developers in the Denver region; thanks to the progressive vision of our Board of Commissioners, my talented and passionate staff and the creative mixed-financing strategies we have successfully executed in order to preserve the public housing we have while creating new affordable and market rate units. We continue to maintain a high performer status with HUD and simultaneously, an A+ rating with Standard and Poor's on our Denver Housing Corporation's tax-exempt revenue bonds.

In short, we are here today to testify on behalf of the Rental Assistance Demonstration legislation because, as a developer, owner, and manager of a diverse, subsidized real estate portfolio, we understand the challenges and opportunities that face all housing authorities seeking solutions to the backlog of public housing capital needs within their portfolio.

I am also appearing today as a Board member of the Council of Large Public Housing Authorities (CLPHA). CLPHA is a national, non-profit membership organization committed to the goals of preserving, improving, and expanding the availability of housing opportunities for low income, elderly, and disabled individuals and families. CLPHA's members comprise nearly 70 of the largest Public

Housing Authorities (PHA's), located in most major metropolitan areas in the United States. These agencies act as both housing providers and community developers while effectively serving over one million households, managing almost half of the nations multi-billion dollar public housing stock, and administering over one-quarter of the Section 8 Housing Choice Voucher program.

We thank the Subcommittee for holding this hearing on "the Rental Assistance Demonstration (RAD)" program, and appreciate the opportunity to comment on the RAD proposal set forth in the Senate version of the fiscal year 2012 funding bill for the Department of Housing and Urban Development (HUD). HUD included in its FY2012 budget submission a demonstration proposal to convert public housing units to project based Section 8 vouchers or contracts, and the Denver Housing Authority supports this demonstration pilot of public housing conversion. The RAD demonstration would allow conversion to be tested on a modest scale, so that important elements of the program, including rent setting, resident choice options, and foreclosure provisions, can be developed, evaluated and perfected in order to better enable Congress to implement conversion more broadly.

A coalition of interest groups, convened by CLPHA, helped to develop a RAD proposal that was a result of a months-long process by stakeholders in Congress, HUD and the affordable housing community. The result of the collaboration was a consensus draft intended to serve as a blueprint for legislation. The Senate proposal is a modified version of that legislative draft put forth by the stakeholders, and would preserve public housing units by allowing a limited conversion of public housing operating and capital funds to project-based Section 8 vouchers or contracts.

With this conversion option, we hope to convert public housing to a more adequate, reliable and flexible subsidy platform. The goal for this demonstration is for housing authorities to effectively use this tool to secure adequate operating income and additional capital investment to ensure long term sustainability and affordability of quality housing for low income families, seniors and persons with disabilities.

Overview of DHA Capital Needs and Housing Portfolio

A recent HUD study on capital needs of public housing shows that more than $26 billion in unmet capital needs exist in public housing. The Denver Housing Authority has capital needs of over $90 million ($89,690,629). Over the years, Congress has not provided enough in the public housing capital fund for DHA to keep up with the backlog of capital needs in our properties, jeopardizing the viability of these properties and the quality of affordable housing our residents deserve. In today's funding reality, with Congress rightly focused on addressing the nation's fiscal debt crisis, nationally housing authorities have already absorbed one 20% reduction in annual capital grant funding, creating a situation where we aren't able to meet our annual needs and thus are adding to our capital backlog. These persistent cuts will define a new baseline of funding that will continue to be lower than in prior years.

For the past decade, DHA has become more creative and more resourceful in using the federal resources that we have available. In that time, DHA has been awarded three HOPE VI federal grants, totaling over $67 million. With those funds, we are on track to preserve over 650 units of federally subsidized housing, while simultaneously creating over 1100 units of new affordable workforce and market rate units.

DHA also took full advantage of HUD's Capital Fund Financing Program (CFFP), which allowed us to securitize our future allocation of Public Housing Capital Funds, generating tax-exempt bond proceeds of $14.6 million and low-income housing tax credit equity of over $12.5 million. With these proceeds, we successfully addressed the long-term capital needs of over 300 public housing units in three distinct senior high-rises.

Most recently, DHA was a partner with HUD in the American Recovery and Reinvestment Act. DHA was awarded 5 competitive grants, totaling over $27 million in public housing capital funds. With these awards, we were able to leverage an additional $40million of both private debt and equity through private activity bonds and the low income housing tax credit program. This allowed us to accelerate important capital projects, including the preservation of over 200 public housing units and simultaneously creating 120 new public housing units that had been eliminated and never replaced from older, obsolete public housing sites.

While we are very proud of these accomplishments, and grateful for the partnership we have with HUD, this still only represents less than a third of our total portfolio. And, just as important, each of these successes was built upon one-time opportunities that required a significant, and very competitive, federal grant. When DHA was awarded its most recent 2010 HOPE VI capital grant, we were one of eight public housing agencies awarded. That left over 25 other public housing authorities nationally without the capital funds needed to address their most distressed properties in their local community. Similar distressing ratios between applicants and awardees exist in every one of the federal competitive capital grant programs, from HOPE VI, to Choice Neighborhoods, to the American Recovery and Reinvestment Act competitive capital grant program. In most cases, the ratio of dollars requested to meet the capital needs of the public housing portfolio far exceeds the dollars appropriated to meet those needs.

The reality is that we need a more comprehensive and structural solution to the problem of maintaining, preserving, and transforming our aging and obsolete public housing portfolio. We need market-based solutions that allow PHA's to take limited federal resources and leverage them with private sector debt and equity. And we need new programs that allow for maximum flexibility and local decision making so that PHA's can work with their local elected officials and community stakeholders to design and implement local solutions.

For this reason, we believe that the option to convert public housing operating and capital fund subsidies to Section 8 project based contracts or vouchers is an important tool that should be made available to housing authorities of all sizes and in all regions. DHA has had experience recapitalizing both public housing properties and Section 8 properties with project-based rental assistance. Our experience in negotiating and closing multiple financing instruments leads us to the conclusion that the project-based Section 8 programs offer a more efficient execution, require less upfront federal capital investment, and allow for greater leveraging of private sector debt to cover the cost of recapitalization.

Just as important, converting the ACC operating and capital funding structure to project-based rental assistance brings us more in line with real estate industry practices by establishing fair market rent standards that are predictable and rental contracts that are more stable than the current ACC operating subsidy formulas. To use a cliché, this is a program that we can take to the bank. As you have heard, our Bankers and Equity Partners understand contract rents. They have a harder time with prorated, ACC operating subsidies that rely on very complicated, if not archaic, property expense level calculations.

It is important to emphasize that this program is a voluntary demonstration. By virtue of being a demonstration, the RAD proposal is meant to develop a new approach and insights to public housing preservation. Such insights include: how the conversion option will create new opportunities for PHAs in preserving their stock; how it will enable PHAs to create new partnerships for leveraging resources and attract private capital to improve their housing stock; how the conversion model will work in differing geographic markets; and how conversion, as an option, will benefit existing residents. These are all important issues and we are hopeful the RAD proposal will allow us to find the answers.

Case Study for RAD

Over the past two years, DHA has undertaken two distinct developments. One was the recapitalization of a public housing community, Westwood Homes. The second is the recapitalization of a multifamily property, Mountain View, which receives rental subsidy under a project-based rental assistance contract.

In the case of Westwood Homes, DHA was awarded $10,000,000 in ARRA capital grants. We proceeded to work with HUD and our investment partners to leverage an additional $10,749,000 in low income housing tax credits. Along with some additional funding sources, we eventually completed a $29MM rehabilitation of the property. However, this recapitalization of an older, distressed public housing site would not have been possible without the infusion of over $10MM in federal capital grants.

Contrast that experience with our current undertaking at Mountain View apartments, a 254 unit multifamily community. Because Mountain View receives project-based contract rents, under a 40 year HAP contract that has been in place since 1978, lenders and equity investors are able to underwrite the property's ability to cover operating expenses, capital needs, as well as make mortgage payments based on our past experience of doing so with the fair market rents we are allowed to collect. DHA is in negotiations with lenders and equity investors to close on a $29MM recapitalization of Mountain View apartments in early 2012. We anticipate that the final financing package will include an $8,541,000 permanent loan and $11,361,000 in low income tax credit equity. No federal capital grants will be required in order to complete the recapitalization. Our investment partners will rely primarily on the good faith of DHA, HUD, and Congress to annually appropriate sufficient funding to cover the annual project-based rental assistance contract obligations.

Why does DHA Support RAD

The above case study explains why DHA supports this Rental Assistance Demonstration. We believe that for certain properties, the Section 8 conversion option will make sense. We do not expect that it will be the solution for all of our public housing capital needs. In particular, there will continue to be a need at DHA, and throughout the country, for large scale federal capital grants such as HOPE VI and Choice Neighborhoods Initiative if we are going to achieve important neighborhood transformation goals in our most distressed urban communities. In addition, there will be a continued need to reposition as well as recapitalize much of our dispersed public housing stock through HUD's disposition process. DHA, like many other housing authorities, continues to need the option of disposing of its most inefficient properties, receiving tenant replacement vouchers, and then replacing those inefficient units over time through the development of new affordable units.

We believe a public housing conversion option will be an important stand-alone financing option for certain properties that do not require repositioning and are not the centerpiece of a major community revitalization effort. At the same time, we also believe that the conversion option should have the flexibility to be combined with programs like Choice Neighborhoods and/or a disposition application, in order to provide maximum leverage and maximum choice for our local communities. Just as DHA has successfully combined Energy Performance Contracts and the Capital Fund Financing Program with other financing structures, we believe a successful RAD will ultimately result in new financing strategies that can not only preserve the existing stock of rent subsidized affordable housing, but also ultimately lead to the creation of new affordable housing as well.

Caveats and Cautions

While a simple and straightforward conversion of public housing operating subsidy to a Section 8 project based rental assistance contract is the most desirable outcome, DHA understands and supports the need for Congress and HUD to take other considerations into account. We hope that with a properly - designed and funded demonstration program, many of the other concerns and questions about how a conversion program would work in practice could be addressed. We offer the following comments on some of the current issues that need to be evaluated.

Regulatory Relief

One of the clear goals of the current administration was to consolidate and simplify the existing morass of multiple rental subsidy programs. At the end of the day, RAD should result in a true conversion of rental assistance from one program to another, more efficient program; i.e. from public housing operating subsidies to Section 8 project-based rental subsidy. We will have failed if the end result is a new program with new rules and regulations; or even a hybrid program that combines rather than eliminates program rules and regulations.

Expedited Waivers or Priority Status

Another possible benefit of this demonstration could be the provision of expedited waivers or priority status provided to RAD agencies. This would enable HA to better meet the market driven financial documentation preparation and financial closing requirements.

Evaluation of RAD Demonstration

We value and commend the Committee for inserting the requirement that HUD conduct an evaluation of the demonstration program. We recommend that collaboration with industry groups assist in developing the program matrix/measurements. We also ask that the Committee require HUD to work towards developing clear evaluation instruments and consolidated reporting requirements in order to not result in additional administrative burdens on a housing authority.

Fully funded Conversion

The underlying motivation for developing a working conversion option is to replace the need for federal funding of capital grants with a more sustainable, market-based solution that allows for maximum leverage of private debt and equity. This goal will ultimately be undermined if Congress does not provide adequate funding for the program. The long term viability rests on the fact that under a project-based rental contract, the housing authority should have sufficient rental income to cover its operating costs, its short-term capital needs, and a reasonable amount of debt service. Fair market rents are and continue to be the industry benchmark for where an efficient owner/manager should be able to operate. Creating an artificial rental subsidy calculation or proration should not creep into the demonstration program.

Choice: Rights and Responsibilities

At DHA we have a strong commitment to resident empowerment and resident engagement. Our resident leaders tell us in no uncertain terms that the most important consideration in resident choice should be fair and equal treatment for all residents. For this reason, DHA does have concerns with the current choice mobility provision in the project based voucher regulations; whereby a resident in a project-based voucher unit is conferred the right to obtain a tenant based voucher ahead of all other program participants and families on the waiting list. We believe that this demonstration program should allow maximum flexibility for local housing authorities to work with their local resident leaders and stakeholders; to create the policies and procedures whereby residents can choose to leave a project-based subsidized unit in favor of a tenant based voucher or other housing option. We also believe that housing authorities should be given the regulatory relief that would allow them to establish certain requirements and responsibilities on the tenant, in exchange for a priority standing to choose a new housing option. We believe strongly that it is important to combine tenant rights with tenant responsibilities. Allowing for the creative, fair, and equitable combining of responsibilities with the right to choose can create important personal incentives toward self-sufficiency and ultimate mobility out of subsidized housing.

Foreclosure and Default

While we understand the importance of safeguarding the public asset that is federally funded affordable housing, we also understand the importance to the lending community of having a clear exit strategy should their investment be jeopardized due to unforeseen market or operating conditions at the property level. For DHA and other housing authorities, our primary concern is that HUD and Congress take into account the underwriting and collateral needs of the lending community in crafting reasonable

and fair provisions. This will ensure that housing authorities will be able to negotiate competitive terms and conditions in their loan and equity agreements with investors.

Closing

In closing, I want to restate our support for the Rental Assistance Demonstration; to thank the Committee for holding this hearing; and, to express DHA's and CLPHA's commitment to continue working with Congress on this issue, as we have done over the years with other HUD initiatives such as Moving to Work Demonstration program.. We believe that, in time, RAD will prove to be an effective and successful affordable housing preservation strategy. And, through cooperation and collaboration, we can be successful in preserving, protecting and expanding affordable housing opportunities. Thank you for your consideration of my remarks.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, DC 20410

Written testimony of Sandra B. Henriquez
Assistant Secretary of Public and Indian Housing

Hearing before the
House Financial Services Subcommittee on
Insurance, Housing and Community Opportunity
On
HUD's Fiscal Year 2012 Rental Assistance Demonstration

Thursday, November 3, 2011

Good afternoon Chairman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee. I want to thank you for holding this hearing and giving me the opportunity to testify on the proposed Rental Assistance Demonstration, submitted as part of the Fiscal Year 2012 Budget Request.

This committee has played a key role in helping provide and maintain affordable, quality homes to some of this nation's most vulnerable populations, and I thank you for that leadership.

For the last few years, the Department, in collaboration with Congress and a wide range of stakeholders, has explored strategies both to preserve a number of the nation's core affordable rental housing programs—including public housing and the privately owned and managed assisted housing inventory—and to safeguard the significant taxpayer investment that has gone into this stock each year. And I appreciate this opportunity to discuss these strategies today and to comment on the recent action taken by appropriators.

Challenges Facing Public Housing Preservation

We meet at an important moment. Today the need for affordable housing is greater than ever. According to HUD's most recent Worst Case Housing Needs report, 7 million very low-income renter households pay more than half their income for housing, live in substandard housing or both. Essential to meeting the needs of these families is public and assisted housing – which provides 2.5 million quality, affordable homes in communities across the country, nearly 20% of which are located in rural and small towns. In all, 4.5 million households—a third of whom include an elderly or disabled family member—depend on help from HUD to pay the rent – whether in public housing or private subsidized housing.

The taxpayer has invested significantly over the last 75 years in the development and maintenance of these homes. Like all housing, this stock requires periodic recapitalization to maintain and modernize the buildings. Indeed, most forms of affordable housing can leverage funding from private investors and other non-federal government sources to make these repairs.

But public housing and properties funded through HUD's so-called "legacy programs" generally can't, Chairman Biggert. As a result, repairs to these homes tend to be put off longer, which makes the cost of maintaining them more expensive. Unfortunately, this leaves owners with deteriorating buildings, and little choice but to either demolish these homes or sell them.

Antiquated laws largely require the Federal government to be the sole investor in public housing. As a result, PHAs are not able to leverage their assets in ways that nearly every other form of affordable housing can in order to adequately fund long-term operations and capital needs. Further, year-to-year budgetary fluctuations lead to less predictable funding streams that make it more difficult for PHAs to effectively plan for long-term needs.

As a result, Chairman Biggert, we have lost over 150,000 public housing units to demolition or disposition over the past 15 years.

And given the Department's 2010 Capital Needs in the Public Housing Program study, we see no sign that this trend will change anytime soon. This Congressionally-funded study estimated that the aggregate national capital backlog is between $22 and $26 billion—or, $22,000 to $24,000 per unit—in the public housing portfolio alone. We cannot come close to meeting this need through annual appropriations, particularly when we are in a period of tight fiscal constraints, and our ability to leverage other forms of private and public investment is very limited.

Further, Public Housing is not the only inventory at risk. Equally critical are the parts of our privately-owned and managed affordable housing stock that are facing the end of their contract terms, with either no option to renew, or, the inability to renew on terms needed to attract capital

for reinvesting in their properties. The combined 48,800 units in our Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation programs are the most vulnerable among this category.

For the 23,800 Rent Supplement and Rental Assistance Payment units, HUD lacks the authority to renew them under Section 8 project-based rental assistance when their contract expires. Meanwhile the 25,000 units funded through contracts under the Moderate Rehabilitation program are limited to one year contacts that limit their ability to leverage capital.

Equally as important is our need to fundamentally improve the public housing system. Even if Congress were able to provide the $22 to $26 billion to address the public housing inventory's backlog of capital needs, my decades of corporate and public sector experience managing housing tell me that we can build a better system that harnesses the resources and discipline of the private market without compromising the important mission of publicly supported housing. My experience also tells me that we can build a system that does not leave America's poorest families isolated – with too few choices and too little opportunity to take responsibility for their own futures.

I believe we can do better – and I am confident this subcommittee would agree.

21st Century Preservation Tools

Collectively, these challenges require a commitment to preservation using proven tools that so many other forms of affordable housing have accessed over the last four decades. These tools will put our most vulnerable stock on a more solid foundation for the future and provide residents with access to more opportunity.

The Rental Assistance Demonstration that we have proposed as part of HUD's FY 2012 Budget request represents an important step in the right direction. We have worked hard and listened to you and many others in our formulation of this demonstration.

As this Subcommittee knows, last year we proposed an ambitious, multi-year effort called the Transforming Rental Assistance initiative, or, TRA to streamline HUD's affordable housing programs into one Section 8 program with a single stream of funding. This effort sparked an important conversation about increasing the ability of the public and private sectors to work together to invest in the success of these properties and the families who live in them.

Taking into account the concepts that emerged from that conversation, we designed a demonstration, focusing on the stocks with the greatest need, using tools with the broadest support, engaging stakeholders—from the public housing industry, to multifamily owners and

managers, to residents—and sought input from Members and staff of this Subcommittee in particular. This process culminated in the Rental Assistance Demonstration we discuss today.

This Demonstration would be voluntary and would allow public housing and units in the Rent Supplement, Rental Housing Assistance Payment, and Section 8 Moderate Rehab programs to convert their federal funding source. PHAs and owners can choose to participate if they feel that the Demonstration would be the best option for preservation in their local communities, or they can choose to remain in their current program. At its core, the Demonstration is very much about giving PHAs, owners, and local residents the choice to determine the strategies that would best work for their home towns.

Key Goals of the Rental Assistance Demonstration

The Demonstration differs from our TRA proposal in important ways including strengthening public control and foreclosure protections, while at the same time eliminating proposals that would have regionalized public housing administration. It builds on the basics of what we know already works to preserve affordable housing and has five key goals:

Long-Term Stability. The Demonstration puts public housing on a stable funding platform that will allow owners to plan for the future and maintain their properties. Specifically, it would allow PHAs and owners of Moderate Rehabilitation (Mod Rehab), Rent Supplement, and Rental Assistance Payment (RAP) properties the option to convert their current or expiring form of rental assistance to either a Section 8 Project Based Voucher (PBV) contract or a Section 8 Project Based Rental Assistance (PBRA) contract.

PBVs and PBRA have proven to be effective tools for preservation and affordability. Further, there is widespread acceptance and familiarity within the lending community around Section 8, and HUD already has the internal infrastructure to manage Section 8 contracts.

- For PHAs, this essentially means trading operating and capital subsidies under the Public Housing program for long-term, 20 year PBRA contracts.

- For the Rent Supp and RAP programs, HUD would convert contracts to Section 8 PBRA contracts with 20-year terms.

- For Mod Rehab properties, the Demonstration would provide a real opportunity to put them on sound financial footing and to make needed repairs by also converting to long-term, 20-year Section 8 PBRA or PBV contracts.

Safe, Proven Tools to Leverage Private Capital. The Demonstration will allow the public housing, Rent Sup, RAP and Mod Rehab programs to use the same tools to access private debt and equity that all other affordable housing programs use.

Mixed-finance affordable housing development has proven to be extraordinary successful at leveraging private capital. Currently, the long-term project-based Section 8 system successfully supports 1.3 million units of multifamily assisted housing. Overall, this inventory has generated tens of billions of dollars in debt and equity investments over the past 30 years, while the foreclosure rate in the inventory has been limited to a historical average of less than half of one percent. Conversion to this Section 8 platform will also give this housing better access to the largest source of equity for affordable housing over the last decades – the Low Income Housing Tax Credit program (LIHTC).

Over the past 25 years, the LIHTC has helped finance the construction and preservation of more than 1.8 million affordable rental homes and has leveraged more than $75 billion in private capital.

With approximately 90% of all affordable rental housing created or preserved each year receiving equity through the LIHTC program, these tools have helped bring not only new capital to affordable housing, but also a new sense of discipline that extends from the way that properties are financed to how they are managed.

Long-Term Affordability. Perhaps the most important goal of affordable housing preservation efforts such as this Demonstration is saving properties for generations to come by better managing the investment the public has already made Toward that end, participating properties will feature long-term assistance contracts and use agreements, which would protect affordability, including in the event of foreclosure or bankruptcy.

More Resident Choice and Real Resident Rights. Families should be able to choose where they live and be able to take responsibility for their futures – while also being protected from eviction, rental assistance termination or re-screening as a result of conversion. Accordingly, we expect that at least 90 percent of the Public Housing and Mod Rehab units converted under the Demonstration will provide residents with an option to move with voucher assistance after a reasonable tenure. Residents will also have an opportunity to comment on any conversion action, not be subject to re-screening, and have strong procedural and organizing rights.

Effective Public Ownership. Preserving public housing for the next generation is not about changing who owns public housing – but rather, how it is funded and the tools it can access. In the Demonstration, public housing properties will remain under the ownership or control of a public housing authority, other capable public or nonprofit entity identified by the PHA, or a limited partnership formed for purposes of accessing Low-Income Housing Tax Credits. In the unlikely event of foreclosure, bankruptcy, or enforcement action – indeed even in this economy,

local multifamily owners have defaulted on their loans less than one-tenth of 1 percent of the time -- the Secretary may transfer the contract and use agreement to a capable public or nonprofit entity, and only when neither of these options is viable, may the Secretary seek to the help of a for profit entity in preserving the property. If this were to occur, it is important to note that the owner would still be required to manage the property, guarantee its affordability and maintain tenant rights in accordance with the Use Agreement.

Implementing the Demonstration

The Demonstration relies on existing tools that have proven effective at preserving affordable housing over the last 20 years or more. And while public housing and the "legacy programs" have had limited access to these tools, other programs within HUD have been using them for the past two decades – giving HUD the experience with private sector developers, investors, and lenders that is so critical to making this demonstration a success. From our work with the private sector on HOPE VI and now Choice Neighborhoods to our management of over 1.3 million units of multifamily housing with Section 8 contracts we have the infrastructure in place to both manage the conversions of traditional public housing properties to operate under Section 8 contracts and to monitor these assets over time.

And with their decades of experience in financing and developing a range of affordable housing programs, we anticipate that private sector partners will continue to play a key role in this demonstration. As we have seen in HOPE VI, many PHAs have already collaborated with the private sector in a variety of ways – from securing FHA insurance, tax-exempt bond financing, private loans and/or tax credit investments to assistance with legal, accounting and investor reporting responsibilities.

With this demonstration, PHAs will continue to sponsor, develop, own and manage forms of needed housing that the private market on its own cannot be expected to profitably produce and manage. But at the same time the private sector will be able to add capacity and expertise in the field of real estate finance and development that we believe is critical to the success of these properties and this demonstration.

2012 Appropriations

The Demonstration was included in the Administration's FY2012 Budget. The Department estimates that this federal investment could unlock billions in private investment to repair and rehabilitate participating developments, which would go a long way toward meeting the estimated $22-26 billion capital need in public housing.

The Senate-passed FY 2012 Transportation, Housing and Urban Development, and Related Agencies Appropriations Bill authorizes the transfer of operating and capital subsidies to support a Rental Assistance Demonstration targeted at the public housing portfolio (it does not include conversion authorization for units in our Rent Supplement, Rental Assistance Payment, and Moderate Rehabilitation inventories). We appreciate the Senate's action, and we believe it would give us the authority we need to take an important first step towards preserving public housing, utilizing the Demonstration model.

While we believe it makes sense to move toward a comprehensive authorization of Demonstration – and we are thus appreciative of the opportunity afforded by today's hearing to give the Demonstration concept a valuable public airing – we also believe it is reasonable, as an initial test of the proposal, to proceed for now with the option that has been included in the Senate appropriations bill. We are hopeful that the members of this subcommittee will join with us in supporting this strategy, while continuing to explore the broader authorization process through this committee.

Further, we are working with appropriators on authority that would allow for Tenant Protection Vouchers to be project-based under the PBV authority as a no-cost strategy for preserving RAP and Rent Sup HUD-assisted properties. While we are generally supportive of this approach, we do not believe it will be the right solution for every property or every PHA so it is critical that we have the ability to convert these properties to long-term PBRA contracts.

Conclusion

And so, Chairman Biggert, we believe the time has come to allow America's public housing system to take advantage of 30 years of innovations in affordable housing finance – to connect millions of families to opportunity, to turn homes too often seen as a "neighborhood problem" into community assets, and to allow owners of public and assisted housing to access the proven preservation tools available to all other affordable housing programs.

This Demonstration represents an important step toward preserving these homes for the future – and I want to thank you again for this opportunity to testify today. I would be glad to answer any questions.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

PRESERVING PUBLIC HOUSING
THROUGH CONVERSION TO LONG-TERM SECTION 8 RENTAL ASSISTANCE CONTRACTS:
Two Recapitalization Examples Under HUD's 2012 Rental Assistance Demonstration

HUD's 2012 Budget requests Congressional approval for a rental assistance demonstration that would allow Public Housing Agencies (PHAs) to convert public housing to long-term Section 8 property-based contracts – either Project Based Section 8 or Project-Based Vouchers. One of the main objectives of the demonstration is to address the very large backlog of capital needs that has accumulated over the years for the nation's 1.2 million units of public housing. This backlog is estimated at $22 to $26 billion, or about $20,000 to $24,000 per unit.[1]

Today, the Capital Fund Program provides the primary source of funding for public housing repairs and renovations. Capital Fund annual appropriations, however, have consistently fallen below the amounts required to keep pace with basic capital needs. These chronic funding shortfalls have contributed to a net loss of over 150,000 public housing units in the past fifteen years.[2]

Under the demonstration PHAs would, essentially, exchange operating and capital subsidies under the public housing program for long-term Section 8 project-based rental assistance contracts.[3] Property-based Section 8 contracts would provide PHAs access to private financing to renovate their properties, consistent with other Federally-assisted housing programs. Private financing could take the form of loan proceeds (debt) or equity (typically generated through Federal Low-Income Housing Tax Credits).

This paper illustrates the leveraging potential of converting public housing to project-based Section 8, using the fictitious Washington Park and Lincoln Fields projects. For Washington Park, we show a traditional debt model. For Lincoln Fields, we show a combination of debt and equity financing.

WASHINGTON PARK is a 100-unit public housing project for seniors that has not been renovated since it was built in 1975. It is clean and habitable but, like any un-restored building of that age, the project needs work. The steel-frame windows are drafty; the central boiler is unreliable; the roof is past its useful life; the parking lots require resurfacing; the building needs painting; and more. Overall, the project's backlog of repairs and improvements totals $2.5 million, or $25,000 per unit.

The Capital Fund Program provides about $180,000 annually for this project, or 7.2% of the property's capital backlog amount. With this amount, the PHA is able to make piecemeal

Washington Park Preservation Needs

Capital Needs	*Project*	*Per Unit*
Roofs	$250,000	$2,500
Kitchens	$550,000	$5,500
Windows	$250,000	$2,500
Site	$500,000	$5,000
Heating & Cooling	$450,000	$4,500
Plumbing	$300,000	$3,000
Community Facilities	$200,000	$2,000
Total	**$2,500,000**	**$25,000**

[1] See *Capital Needs in the Public Housing Program* (Cambridge, MA: Abt Associates. 2010)

[2] Most of these hard units were replaced with vouchers.

[3] Nationally, while some projects would be able to convert without cost, the incremental cost of conversion would be about $85 per unit monthly ($1,020 per unit per annum).

repairs to keep the building open, but has no funding to undertake the comprehensive improvements that are necessary for long-term sustainability and livability or to meet acceptable community standards.

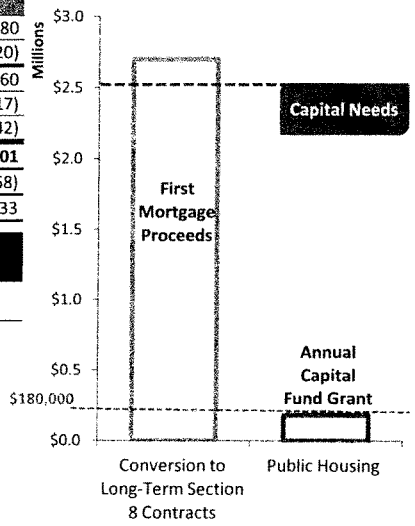
Conversion: By contrast, conversion to a long-term, Section 8 property-based contract under the rental assistance demonstration would enable the PHA not only to eliminate the capital needs backlog with mortgage proceeds but to establish a replacement reserve account so that capital repair and replacement needs could be addressed as they arise going forward. In addition, the PHA would likely realize operating vacancies, bad debt, and other income, and after deducting operating costs and a reasonable deposit for a new Replacement Reserves account, the project would have Net Operating Income (NOI) of $201 PUM, with which the PHA could support a first mortgage of more than $2.7 million. Under today's public housing Capital Fund Program, the PHA would have to set-aside about 14 years of funding to reach this same dollar amount; however, in the meantime, additional capital repair and replacement needs would accumulate.

Washington Park Pro Forma with Project Based Rental Assistance

Income and Expenses	Project Annual	PUM
Gross Potential Rents	$816,000	$680
Adjustments (vacancies, etc)	(24,500)	($20)
Effective Gross Income	$791,500	$660
Operating Expenses	($500,000)	($417)
Annual Reserve Deposit	($50,400)	($42)
Net Operating Income	**$241,100**	**$201**
Annual Debt Service	($201,000)	($168)
Cash Flow	$40,100	$33
Total First Mortgage*	**$2.71 million ($27,100 per unit)**	

*See Pro Form Notes on page 4

Addressing Washington Park's Preservation Needs



cost savings through the replacement of its windows, boiler, and insulation with more energy-efficient alternatives.

The market rents for Washington Park are $680 per unit monthly (PUM). After adjusting for

LINCOLN FIELDS is a 200-unit public housing project for families that is 80% occupied. It needs many of the same systems upgrades and overdue replacements as Washington Park. In addition, the PHA would like to make marketability improvements to the property to address the small apartment sizes, inadequate parking, and the lack of community space. The total cost of rehabilitation is **$9 million**, or **$45,000 per unit**. Like Washington Park, the Capital Fund provided for this project falls far short of project needs.

Lincoln Fields Preservation Needs

Capital Needs	Project	Per Unit
Roofs	$500,000	$2,500
Kitchens	$1,100,000	$5,500
Windows	$500,000	$2,500
Site	$1,600,000	$8,000
Heating & Cooling	$900,000	$4,500
Plumbing	$600,000	$3,000
Community Facilities	$2,000,000	$10,000
Space Reconfiguration	$1,800,000	$9,000
Total	**$9,000,000**	**$45,000**

Conversion: At estimated post-rehabilitation market rents the project can support a $7 million first mortgage, or about three-fourths of its modernization needs. To fill the remaining gap, the PHA secures 4% low-income housing tax credits, which are available with tax-exempt financing from the local Housing Finance Agency. After paying associated financing and professional fees, **the PHA has enough capital to fully execute its $9 million rehabilitation plan.**

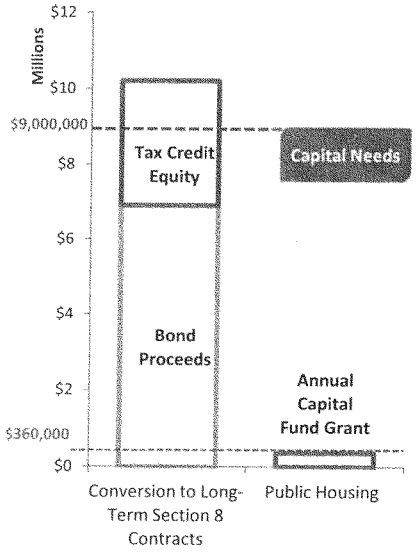
As with Washington Park, the conversoin to a long-term Section 8 contract allows Lincoln Fields to access needed rehab proceeds not possible under the public housing program.

Lincoln Fields Pro Forma with Project Based Rental Assistance, Tax-Exempt Bonds, & 4% LIHTC

Income and Expenses	Project Annual	PUM
Gross Potential Rents	$1,968,000	$820
Adjustments (vacancies, etc)	(137,760)	($57)
Effective Gross Income	$1,830,240	$763
Operating Expenses	($1,185,600)	($494)
Annual Reserve Deposit	($100,000)	($42)
Net Operating Income	**$543,969**	**$227**
Annual Debt Service	($453,308)	($189)
Cash Flow	$90,662	$38
Tax-Exempt Bond Proceeds	$6.9 million ($34,500 per unit)	
4% Low-Income Housing Tax Credit Equity	$2.1 million ($17,500 per unit)	
Debt & Equity Proceeds*	**$9.0 million ($45,000)**	

*See Pro Form Notes on page 4

Addressing Lincoln Fields' Preservation Needs



Washington Park Pro Forma Notes

1. *Terms of Loan:* 6.7% interest (including mortgage insurance premium), 35 year amortization, and debt service coverage of 1.20.
2. Current market interest rates are lower than used for this example; however, because current terms are historically low, we used slightly higher rates to provide a more conservative estimate.
3. In addition to capital repair costs, mortgage proceeds cover financing fees and an initial deposit into the capital replacement reserve account.

Lincoln Fields Pro Forma Notes

1. *Terms of Loan:* 5.7% on HFA-issued tax-exempt bond, 35 year amortization, and debt service coverage of 1.20.
2. Current tax-exempt bond rates are lower than used for this example; however, because current terms are historically low, we used slightly higher rates to provide a more conservative estimate.
3. Pro forma includes a 7% vacancy rate, which is standard in tax credit underwriting.
4. Tax credit equity shown is net of developer fees, financing fees, initial deposits into the capital replacement reserve and the operating reserve, and other soft costs associated with tax credits and tax-exempt bonds. In general, 4% tax credits are particularly effective when loan proceeds can support at least two-thirds of project rehab needs. Otherwise, a project would rely on 9% tax credits or other forms of federal or local equity to fill the financing gap.

Written Statement by

Steven C. Hydinger, BREC Development, LLC

Before the

Insurance, Housing and Community Opportunity Subcommittee November 03, 2011

Chairman Biggert, Ranking Member Gutierrez, members of the Subcommittee, my name is Steven C. Hydinger. I want to thank all of you for your time, your efforts, and the opportunity to express my views pertaining to the Rental Assistance Demonstration (RAD) program. I am pleased to see the efforts of so many coming closer to reality and feel Secretary Donovan and his team are to be congratulated on pushing everyone to think "outside the box" to address a huge housing issue impacting so many.

For over 35 years, my parent company, SPM, LLC of Birmingham, Alabama has been involved in all forms of rental housing. Over that time, this has included development, management, construction and finance. Much of this has involved Section 8 programs for family and elderly tenants (HUD 202 or 236). In late 2004, we decided to create a specific firm specializing in renovations, acquisitions, and new developments called BREC Development, LLC. While some of BREC's activity is related to conventional multi-family housing, many of these developments have involved non-profits with HUD programs and funding. BREC has completed over 30 developments utilizing FHA programs including 223(f) renovations and 221(d)(4) substantial renovations/new construction. BREC has worked on projects in Alabama, Florida, Georgia, New York, Texas, Minnesota and Tennessee. Multiple projects have coupled 9% Tax Credits, 4% bonds and hybrid financing in order to renovate properties. I have seen first-hand public and private dollars work together for the betterment of thousands of tenants. It is my background as a for-profit developer that I would like to express my opinions related to RAD. I would never profess myself to be an expert in the company of so many knowledgeable people who have contributed to this plan. I prefer to take a more direct path with my opinions hoping to represent many for-profit developers across the country.

Highest and Best Use:

Everyone in real estate professes to know one of the most basic laws related to the industry. Highest and best use of a property is that which results in the highest present value and brings in the greatest net return over a given period for the foreseeable future. I think it is

imperative lawmakers involved with RAD keep this squarely in mind while evaluating properties for consideration. Not all Public Housing Units (PHU's) need to continue as housing stock. While not a popular opinion with certain Public Housing Authorities (PHA's), this is an economic reality. I do not condone a one-for-one mentality related to rehabilitation or demolition and new construction. Each market, sub-market, and demographic must be evaluated to assure the best overall fit in the community. The measure should be quality of product and quality of life for tenants, not simply quantity.

Private Mentality:

In my mind, one of the best pieces of the legislation being considered is allowing each PHA to pledge the real estate as collateral affording it the opportunity to structure various real estate transactions. Since this was never possible in the past, many opportunities simply could not be undertaken. At the same time, I am hopeful some of the historical regulatory handcuffs will be removed allowing PHA's to sell certain properties that may no longer be in their economic best interest. Allowing PHA's to sell certain properties more easily will give that same PHA fresh capital to build new or renovate other units in their footprint. Most private investors know when to take profits, or losses, and move on to other opportunities. I believe PHA's need more flexibility to operate as a business and bring in fresh capital when it is prudent.

Low Income Housing Tax Credits (LIHTC):

Whether one agrees with the program or not, the LIHTC program has been around since 1986 and is a current, viable program in the marketplace related to affordable housing. I say viable because the private sector continues to purchase the credits year after year. If the private market saw no value, they would not continue to participate. Regardless, I do <u>not</u> support PHA's having preferential treatment in the 9% tax credit cycles. I do not support any preference because there are not enough tax credits to go around now and, if you add another preference, it means other projects deserving of tax credits lose. Plus, the sheer size and age of most PHA projects will not be feasible under the deal volume caps in each state. The market should choose the best projects based on, location, costs, age of project, scoring etc… If the PHA has a good project, it should compete on the same playing field with all developers seeking funding.

However, I would support a separate pool of 9% credits for PHA projects each year above and beyond each state's allocation of credits. This is really the best way to assure that PHA's receive a fair opportunity for funding and also not diminish other projects in great need of funding. An additional amount of 9% credits for funding each year would expedite units being renovated or constructed, heighten interest in PHA properties, and assure units are being brought back on-line in a timely manner.

4% Credits are also another option, but that program needs some refinement. For example, as with 9% credits, 4% credits should bring full face value of 4% and not be tied to an ambiguous moving target percentage. Most states already have excess bond caps and would be able to facilitate bonds being used in this capacity. The 4% programs may also alleviate the need for such tight proximity scoring affording more PHA's to be awarded funding.

Dollars and Sense:

I believe it is critical for realistic construction estimates to be considered when evaluating renovations of certain projects. I have read estimates requesting as low as $3,500 per unit in repairs and renovations. This is simply not a realistic figure and makes no sense. Whether one believes in the current LIHTC program or not, it affords some very rational guidelines in certain areas. One such area is the value related to minimum investment per unit on a renovation deals and also minimum scopes of work. Since private capital purchases the tax credits, most mandate a minimum of $20,000 per unit in repairs. They do this to assure most of the major capital items are replaced to alleviate ongoing operating expenditures that adversely impact the property for years to come. In my opinion, it makes no sense to undertake such an exciting new program and not assure the proper repairs are completed during the initial renovations.

Changing Population:

One of the most dramatic changes in PHA stock is the change in demographics as so many in our nation age in place and live to be much older. The vast majority of PHU's contain many stairs, do not meet current ADA guidelines, do not incorporate Universal Design and are simply functionally obsolete. The aging population boom is just now beginning and more and more housing must be prepared to house the elderly for extended periods of time. While the term "crisis" is certainly overused these days, I would support that term to describe housing for seniors in the coming years.

Project Based Section 8:

Simply stated, I fully support Project Based Section 8 (PBS8) Rents. PBS8 rents coupled with 20 year extended HAP contracts are widely accepted in financial markets. This is paramount to the program succeeding and gaining relevance in the industry.

Summary:

While there are many details to address in a program such as this, I believe that many current programs offer beneficial guidelines. Much of what has materialized over the years related to LIHTC deals and HUD 221(d)(4) underwriting offers a great roadmap. In my mind, some of the major components are already in place for successful implementation. Some of the positive attributes of the program include:

Product: PHA's have an abundance of both existing housing stock and land that is ready to be evaluated. Many of these sites are in prime locations to be re-developed.

Participants: I know many for-profit developers are anxious to work with existing PHA officials to vastly improve the quality of life and quality of product currently in stock. If done correctly, PHA officials should not feel threatened to work with private developers related to their land and/or buildings in a collaborative effort.

Private Dollars: For-profit developers will be the best solution to work with PHA's in an effort to attract private investment to couple alongside agency dollars and debt. With apparently many dollars "on the sideline," now would be an opportune time to approach the market with good projects.

Portability: Addressing resident choice/mobility is wise and will be received well in the communities.

Funding: I am enthused the conversion to PBS8 is becoming a reality. As stated earlier, I feel long term PBS8 HAP contracts are crucial to success and acceptance in the private marketplace.

While there are so many positive factors in place, I am compelled to mention a few areas that will need special attention in order to be successful.

Program Speed: HUD is swamped with transactions now. A processing time of 18-24 months is not acceptable for a program such as this. Either a vastly expedited 221(d)(4) program is needed or HUD should amend the current dollar and major system limits and allow these specific PHA transactions to be processed as 223(f) deals. It will be critical for the success of the programs to have 35 or 40 year fully amortizing debt on these properties.

Environmental: Due to the age of so many of these projects, abatement of environmental hazards such as asbestos will be an issue. This will impact construction pricing in a negative manner.

Code issues: Due to the age of so many of these projects, few of them meet all the current ADA and Fair Housing guidelines, few of them are up to current City or International Building Code Standards (IBC) and few of them are GREEN. This will impact construction pricing in a negative manner.

I, and many others, are supportive of the RAD initiative and want to express appreciation for being allowed the opportunity to give feedback on this program. Again, I want to thank Secretary Donovan, his entire team at HUD, and the members on this committee who have worked hard to make this plan become a reality.

September 14, 2011

- Transmitted by Email -

Representative Harold Rogers, Chairman
Committee on Appropriations
U. S. House of Representatives
H-307 Capitol Building
Washington, DC 20515

Representative Norman Dicks, Ranking Member
Committee on Appropriations
U. S. House of Representatives
H-307 Capitol Building
Washington, DC 20515

Representative Spencer Bachus, Chairman
Committee on Financial Services
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Representative Barney Frank, Ranking Member
Committee on Financial Services
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairmen and Ranking Members:

The undersigned organizations are writing in support of the attached draft legislative proposal which would authorize a program to test the conversion of units assisted under public housing to project-based Section 8 subsidies. The draft was prepared by the U.S. Department of Housing and Urban Development (HUD) at the request of various members of Congress. We strongly urge you to support including this proposal in any appropriate authorizing bill or in the fiscal year 2012 HUD appropriations bill.

For the past several months, HUD has worked with public and affordable housing stakeholders to design this "Rental Assistance Demonstration" (RAD) program and to draft legislation authorizing the program. The RAD demonstration would allow conversions to be tested on a limited scale, so they can be evaluated and the results can inform Congressional consideration of implementing public housing conversions more broadly.

A recent HUD study on the capital needs of public housing shows that more than $26 billion in unmet capital needs exist in public housing. Despite the yearly federal allocation to the Public Housing Capital Fund, this backlog has persisted for many years simply because the federal expenditures have not kept pace with the modernization, rehabilitation and recapitalization needs in public housing. Given the current budget environment, it is also not likely that federal expenditures alone will ever be sufficient to meet the need.

Conversion of some public housing developments to Section 8 assistance offers a cost-effective, market-based way to address capital needs in public housing, because it would better enable housing authorities to leverage private investment to renovate and preserve developments. While RAD will primarily focus on public housing conversions, owners of Moderate Rehabilitation and Rent Supplement/Rental Assistance properties, which currently lack a viable renewal option and are at risk of being lost from the affordable housing inventory as a result, will also be eligible for assistance under this legislation.

The RAD legislative proposal is attached. We urge you to include this legislation in the FY2012 THUD appropriations bill to help enable PHAs to preserve our public housing stock and increase the supply of housing affordable to very low-income households. Thank you for considering this request. We look forward to working with you on this important issue.

Sincerely,

Center on Budget and Policy Priorities
Council of Large Public Housing Authorities
Enterprise Community Partners
Local Initiatives Support Corporation
National Housing and Rehabilitation Association
National Leased Housing Association
National Low Income Housing Coalition
Poverty & Race Research Action Council
Rod Solomon, Hawkins Delafield & Wood LLP
Stephen I. Holmquist, Reno & Cavanaugh, PLLC
Stewards of Affordable Housing for the Future

Attachment

cc:
Members, U. S. House of Representatives, Committee on Appropriations
Members, U. S. House of Representatives, Committee on Financial Services
Secretary Shaun Donovan, U. S. Department of Housing and Urban Development

HAC
Housing Assistance Council
1025 Vermont Avenue, NW, Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, HAC@ruralhome.org
Web site: www.ruralhome.org

October 31, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and
Community Opportunity
2113 Rayburn Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Luis V. Gutierrez
Subcommittee on Insurance, Housing and
Community Opportunity
2266 Rayburn Building
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
1424 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
1414 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

The Housing Assistance Council supports HUD's HOME Investment Partnerships program. It is especially important in rural America, where we work to try to help create or preserve affordable housing.

We are concerned that recent reports of problems in HOME reflect isolated incidents and do not recognize that the program has successfully and cost-effectively supported the development of over 1 million affordable homes. In rural areas HOME supports both ownership and rental units. Rural affordable housing nonprofits rely heavily on HOME as a very valuable resource. Rural areas also rely on HOME because other financial resources for affordable housing -- e.g., foundation and corporate philanthropy and rental investments -- are very limited to nonexistent in rural America.

HOME allows states and localities to respond to housing needs with on-the-ground knowledge of conditions, markets and capacity. HOME is vitally important in serving the homeless, promoting ownership, and helping with disaster recovery. HOME serves families with children, senior citizens, and those with special needs. Many projects would not succeed without HOME assistance. It complements many other housing efforts, such as Section 202 housing for the elderly, Section 811 housing for the disabled, USDA rural housing programs, and the Low Income Housing Tax Credit. The partnership of these programs makes developments financially feasible and able to reach lower incomes.

HAC strongly supports reforms to make HOME more honest, successful and accountable. But we do not believe that an essentially sound and very valuable program should suffer for the excesses of a few.

Sincerely,

Moises Loza
Executive Director

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-0001

THE SECRETARY

October 11, 2011

The Honorable Judy Biggert
Chairman
Subcommittee on Insurance, Housing
and Community Opportunity
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515-6050

Dear Madam Chairman:

I would like to thank you for your support on a number of HUD's initiatives, and for being a key partner to the Agency. I know we both share the goal of having safe, decent, and affordable housing for everyone in our country.

I wanted to personally follow up with you on the Department's proposed Rental Assistance Demonstration (RAD) as presented in two House Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee hearings (by me on March 10, 2011, and by Assistant Secretary Henriquez on May 25, 2011). The current RAD proposal would facilitate private investment in the Public Housing program to meet the program's $26 billion capital needs backlog through more stable and reliable Section 8 contracts, preserving the country's public housing assets and their long-term affordability.

My staff has been working closely with key stakeholders and with Members of Congress to refine this proposal. At the request of Representatives Bachus and Ellison, along with Senator Shelby, we provided technical drafting service language that would implement RAD. To develop this proposal, the Department worked with a cross-section of stakeholders who have been supportive, and who recently distributed letters endorsing the proposal.

The Department has also engaged in constructive discussions with your staff and Representative Bachus's staff regarding the authorization of RAD, as well as with key minority authorizers on the Financial Services Committee. While we have been discussing a possible hearing with committee staff to more fully consider RAD, we found considerable support for it in the Senate. In fact, the Senate Transportation, Housing and Urban Development, and Related Agencies Appropriations Subcommittee recently included language in its Fiscal Year (FY) 2012 legislation that authorizes RAD in the form of a limited, no-cost demonstration.

The Senate appropriations language is considerably scaled back from our initial proposal. However, given the current uncertain legislative environment, I believe that an Appropriations path offers a reasonable first step toward assessing the utility of the RAD approach to preserve the affordable housing stock that the Federal Government has been investing in for the last 80 years.

Accordingly, I would like to proceed with this first step and request your support in retaining the more limited demonstration language in the final FY 2012 Appropriations bill. Moreover, the Department would also be pleased to proceed with a hearing on RAD as the legislative calendar permits.

Finally, I have asked Acting FHA Commissioner Carol Galante, and my Senior Advisor working on RAD, Patrick Costigan, to offer to meet with you in order to further discuss this matter. I would also be very pleased to discuss this request with you personally.

Sincerely,

Shaun Donovan

cc: Acting FHA Commissioner Carol Galante
Patrick Costigan

National Association of Housing and Redevelopment Officials
630 Eye Street NW, Washington DC 20001-3736
(202) 289-3500 Toll Free 1 (877) 866-2476 Fax (202) 289-8181

The Honorable Judy Biggert
Chair
Subcommittee on Insurance, Housing and Community Opportunity
House Financial Services Committee
Washington, D.C. 20515

The Honorable Luis Gutierrez
Ranking Member
Subcommittee on Insurance, Housing and Community Opportunity
House Financial Services Committee
Washington, D.C. 20515

November 2, 2011

Chairwoman Biggert and Ranking Member Gutierrez:

On behalf of the National Association of Housing and Redevelopment Officials (NAHRO), I am pleased to submit this statement for the record of the House Financial Services Subcommittee on Insurance, Housing, and Community Opportunity's November 3, 2011 hearing entitled "The Obama Administration's Rental Assistance Demonstration Proposal." NAHRO has long advocated that public housing be repositioned to align with the balance of the assisted inventory, with a long-term contract at the core of that repositioning effort, and with the preservation of the physical asset as the overriding priority of any conversion initiative. Our longstanding interest in this matter informs our views on the administration's latest public housing conversion proposal.

NAHRO's membership includes nearly 20,000 individual members and associates working in the housing and community development industry, along with over 3,100 agencies, including public housing authorities (PHAs), community development departments, and redevelopment agencies. Our PHA members own and administer nearly one million units of federally assisted public housing, a figure which represents the overwhelming majority of the nation's current inventory. Our members' interest in any proposal designed to ensure the long-term preservation of this inventory is obviously acute.

NAHRO has consistently held that any new program intended to preserve public housing through conversion must be focused on producing a financial environment characterized by stable, reliable, and adequate funding for PHAs. Such an environment is a prerequisite to positioning PHAs to access private capital by tapping into the value of the physical inventory to recapitalize the public housing stock and preserve these units for the future. Furthermore, any new conversion initiative must be free from collateral policy initiatives that undermine the

stability, reliability, and adequacy of the program. NAHRO also believes PHAs must have access to multiple options for the preservation and recapitalization of their public housing, including continued participation in the traditional public housing program.

Because federal appropriations have proven insufficient to address the growing backlog of capital needs in public housing, and are likely to remain so, PHAs must look to other sources of funding. Unlike other owners of real estate, however, PHAs are bound by a multitude of rules and restrictions that limit their ability to attract investments of private capital in their properties. Owners of properties currently assisted through project-based Section 8 face far fewer challenges to meeting their financial needs than do PHAs. There are three major reasons that account for this difference: 1) Congress's historical commitment to full funding of the Section 8 Project-Based Rental Assistance (PBRA) account, 2) the flexible operating environment created by the Section 8 PBRA program and overseen by HUD's Office of Housing, and 3) the level of comfort in the lending community that the stable PBRA program has created. To succeed, a public housing conversion initiative must address and effectively bridge these differences, providing PHAs with the reliable, stable funding and regulatory environment currently enjoyed by owners of PBRA-assisted properties. NAHRO does not believe that the administration's proposed Rental Assistance Demonstration, as reflected in the August 3, 2011 draft, is capable of fully meeting this goal in its current form.

Although we fully support providing PHAs with the choice to convert public housing properties to Section 8 Project-Based Vouchers under section 8(o)(13) of the U.S. Housing Act of 1937, we have focused our efforts in this area on providing PHAs with the ability to pursue conversion to the Section 8 Project-Based Rental Assistance (PBRA) program as administered by HUD's Office of Housing. Unlike NAHRO's longstanding conversion proposal, which would simply provide PHAs with access to the Section 8 PBRA program as it currently exists, RAD as proposed would create what is, for all intents and purposes, a new, parallel, and untested version of the PBRA program burdened with collateral policies unrelated to preservation. By refusing to simply allow PHAs to access an existing and proven model, RAD and the new regulatory environment that would accompany it would unnecessarily introduce uncertainty and an unacceptable level of risk to the conversion process.

NAHRO believes strongly an approach to conversion that capitalizes on the level of comfort already established around the existing Section 8 project-based programs is much more likely to succeed. Furthermore, RAD is far too open-ended in that it leaves a host of essential decisions to be made by HUD through regulation – or, in some cases, through administrative fiat. RAD is also infused with collateral policy initiatives, some of which are likely to undermine preservation efforts. NAHRO remains unconvinced that the approach embodied by this proposal will provide the financial and operating environments necessary to preserve converted properties.

Voluntary Nature

NAHRO has long maintained that conversion must be optional and at the discretion of the owner, and that a conversion proposal should be seen only as one of a suite of tools for the preservation of the public housing stock. RAD does not guarantee that conversion will be

optional and voluntary, saying only that "The Secretary shall select properties for conversion of assistance and award funds for assistance, including administrative fees, through a competitive process or such other means as the Secretary determines to be fair and necessary to promote the purposes of the demonstration."

Financial Adequacy
The core of any conversion proposal must be an adequate, reasonable, and predictable financial model. Unfortunately, and to the detriment of the proposal as a whole, the RAD proposal provides almost no details regarding the demonstration's rent policies, stating only that the Secretary "may provide for application of various policies covering contract rents." In addition to making no assurances that rents will be adequate to fund the needs of the property, it does not provide a safeguard against HUD's previously-stated intention of using the selection process to "incentivize" owners to request lower rents. This incentive could create a "race to the bottom," forcing owners to choose between proposing inadequate rents and being denied the opportunity to convert.

Simplicity, Clarity, and Certainty
Although is the draft legislative language is brief, we would respectfully suggest that RAD lacks clarity and certainty. RAD provides the HUD Secretary with extremely wide latitude on a range of key issues related to program implementation. Furthermore, because no selection criteria are specified, any number of new conditions could be made prerequisites to conversion, while all requirements from the previous subsidy form as well as additional requirements accompanying the new subsidy could be applied to the operation of the property. Owners considering conversion face an overwhelming degree of uncertainty about whether they will be allowed to convert, what will be required of them if they do convert, and whether they will continue to receive adequate subsidy after the initial contract period.

Added Burdens and Lender Participation
Compounded by the uncertainty of the new program, provisions dissimilar to those of the existing Section 8 PBRA program, including additional responsibilities and reduced rights for property owners and forced contract renewals under terms to be unilaterally dictated by HUD, will create obstacles to attracting private investment. These provisions create risk with regards to the adequacy of funds to repay debt and significantly diminish the properties' value as collateral. For example, under RAD, HUD would force PHAs to accept contract renewals upon the expiration of the 20 year term, with no opportunity for PHAs to renegotiate contract provisions related to the ongoing adequacy of the subsidy. While NAHRO certainly shares the Department's goal of ensuring long-term affordability, we are concerned that these provisions diminish the ability of PHAs to negotiate future rents and contract terms. This provision, which HUD does not seek to impose on private owners, has the potential to weaken the collateral value of converted properties and may have a chilling effect on lender participation. Another serious concern for lenders may be the specter of downward prorations, a problem that has long plagued the public housing and tenant-based rental assistance funding streams. Properties converted to Project-Based Vouchers would be particularly vulnerable to an annual proration under the Tenant Based Rental Assistance account, while properties converted to PBRA may not be able to rely upon the stable funding

history of the existing Section 8 Project-Based Rental Assistance program for security given the administration's refusal to place converted public housing units on a programmatic and regulatory platform identical to the one enjoyed by privately owned properties.

Collateral Initiatives

RAD contains a Resident Choice component that NAHRO believes will have serious negative effects on both converted properties and the Housing Choice Voucher (HCV) program, potentially even for agencies that do not convert properties. By providing residents of converted developments with a super-preference on HCV waiting lists, the proposal will lead to "churning" within these properties, disrupting communities, destabilizing rental income, and increasing turnover costs. As a result, we believe that this will threaten the sense of community within the development while undermining PHAs' collective ability to leverage private capital, an essential component of the proposed initiative. This provision would also negatively and unjustly impact those families already on HCV waitlists, whose often lengthy waits will only grow longer as others use converted properties as shortcuts to the top of local HCV waiting lists.

RAD under S. 1596

The above concerns notwithstanding, NAHRO is somewhat encouraged by the revisions to the proposal contained in the Senate's version of the FY 2012 Transportation, Housing and Urban Development, and Related Agencies appropriations bill. Although still lacking sufficient certainty, this revised version of RAD goes further towards providing PHAs with a viable tool to meet the preservation needs of their properties. It also affirms the principle endorsed by NAHRO, as well as our industry partners, that the resources associated with conversion should not come at the expense of those properties that elect to continue participation in the traditional public housing program. We must note, however, that the Senate bill includes no funding for the demonstration. It is highly unlikely, in our view, that conversion will succeed as a preservation strategy for most PHAs absent incremental subsidy during the initial year. The hard truth is that any serious solution for preserving the public housing inventory will require a level of investment above the status quo if it is to succeed. Our concerns regarding adequate funding notwithstanding, if Congress decides to authorize the demonstration through the appropriations act, then NAHRO would respectfully suggest that some minor changes to the language to better align the proposal with its intended purposes. First, the legislative language should ensure that contracts are not only "eligible" for renewal under the Multifamily Assisted Housing Reform and Affordability Act (MAHRA), but are actually "offered" for renewal under this existing legislation, rather than some other untested mechanism. Second, the language should clarify that only funding "in the initial year following conversion of assistance" is offset by transfers from the Public Housing Operating and Capital Funds, keeping in mind that in subsequent years no funding will be provided for these converted properties through the Operating Fund and Capital Fund accounts, and therefore no funding should be transferred from those accounts to support previously converted properties. Finally, the language should limit the Secretary's discretion to waive or specify alternative requirements to only those changes that are necessary for the "preservation of the converted properties," thereby ensuring that new requirements are related

to preservation, not other unrelated goals that may interfere with the preservation of the physical asset.

We appreciate the opportunity to share our views on this important issue, and we urge Congress to maintain its focus on advancing a comprehensive strategy for preserving the public housing inventory. Failing to take action now will only make future attempts to address those challenges even more expensive, and further delay will undoubtedly result in the continued deterioration of an irreplaceable component of our national infrastructure and a critically important housing option for many of America's most vulnerable families. It is imperative that federal policymakers work together and in partnership with the industry to devise and implement a comprehensive, workable strategy for preserving the public housing inventory as soon as possible. NAHRO stands ready to contribute to this effort.

Respectfully,

John F. Bohm
Senior Director, Congressional Relations
NAHRO